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STRUCTURE AND STRATEGY OF AMERICAN RETAIL TRADE
A preliminary study attaching special
importance to understanding of extent, implications,
and dynamics

Requester : The Norwegian Fisheries Research Council

Abstract :

The report discusses the American retail trade system, with particular emphasis on supermarkets. The report aims to survey structural features and internal resources of the retail trade. Also, it focusses on product marketing strategies of the trade. The work is intended to provide a general overview and knowledge of this market segment and to explain the choices Norwegian exporters face if they wish to enter the market.

Key concepts :
American retail trade
Structure
Strategy

FOREWORD

In the USA, retail trade is responsible for 1/3 of the seafood turnover. For other foods, this proportion is 2/3. The retail trade has considerably bigger margins than e.g. the restaurant and institutional catering segments. Also, the retail trade can harvest the benefits of being able to protect or profile products by means of quality, packing, brand, and opinion-moulding. Therefore, a growing number of Norwegian exporters wish to increase their turnovers through American supermarkets. However, this kind of switch-over is not without risks. It requires economic resources and competence, which may not be available to many Norwegian exporters in the short term.

Based on wishes for more information about the US retail trade, FTFI (The Norwegian Research Institute of Fisheries Technology) started a research and report project concerning the American retailing, with special emphasis on the supermarket segment. The work is financed by the Norwegian Fisheries Resarch Council, and it is part of the FTFI activities associated with the Forum USA Program.

This report aims to provide a general review of the US retail trade, to supply the reader with "basic knowledge" about the structure, strategies, and developmental trends of this distribution channel. Besides, the report was prepared with the intent that it would serve as background information for the layout and implementation of a primary study which would aim to take stock of the requirements and conditions set on Norwegian producers and distributors by the purchasing agents of the American retail trade.

The report was prepared by research scientist Berit A. Hanssen, with research scientist Svein Ottar Olsen acting as project leader and professional advisor. Thanks are due to all who contributed to the realization of this study.

Tromso, July 1988.

Svein Ottar Olsen
Project leader

SUMMARY

This report discusses the US retail trade, with special emphasis on the supermarket segment, with an aim to survey structural features and internal resources of the trade. Also, the product marketing strategy of the retail trade is brought into focus. An effort is made to provide knowledge and a general view of this market segment and to make clear what choices the Norwegian exporters have as they enter this market.

Sales through the US retail market have been growing in recent years. At the same time, the industry is pressed by increasing competition, which has contributed to an increasing degree of market orientation and innovation in the retail trade. To meet its customers' wishes for service, value for money, variation in product range and changing preferences, the retail trade has been developing and improving its management systems with continuous market analyses, computerized financial control, and greater emphasis on store styling and changes in structure and ownership (merging, acquisitions, concentration). The producers have directed and controlled for a long time the development of daily necessities supplies in the USA. However, the retail trade system has been gaining growing power in recent years, and it seems obvious that producers, to have their products distributed, must orient themselves with the markets and the retailers' demands. Producers are revising their strategies and making structural changes to meet the challenges and the competition in the food market as well as to satisfy the wishes of consumers and powerful distributors. Thus, correct information and understanding of the US organizational and consumer behavior is of essential importance for Norwegian exporters desiring to maintain their position or gain a footing in the US retail trade segment.

The report also deals with the driving forces that influence the turnover and have strategic implications for the retail trade. Particular emphasis is placed on demographic conditions, changes in social conditions, and changes in value systems and life-styles. These changes are reflected in consumer attitudes, preferences and behaviors. Furthermore, the report surveys and discusses changes in the structural features of the retail trade, centering on new technologies, changes in strategy variables/ marketing mix and in power relations between retailers, suppliers/producers, etc.

The report is intended to be a general review of the American retail trade and to provide background information for evaluation and layout of a primary study to be conducted in fall and winter 1988-89. The primary study will focus particularly on some important factors associated with a number of retailers, with attention to the conditions and demands made by US purchasers on Norwegian producers and distributors of seafood. Although the report follows a technical line, it also refers to a number of empirical considerations important for food sales.

TABLE OF CONTENTS.

FOREWORD			2a
SUMMARY			3a
1.	Introduction		5
	1.1	Background	5
	1.2	Choice of topic	7
	1.3	Objective	9
	1.4	Plan for data collection	10
2.	Structural Features and Internal Resources in US Retail Trade		12
	2.1	Introduction	12
	2.2	Classification of retailers	13
	2.3	Number of stores, size and turnover	20
	2.4	Location and size of trading areas	28
	2.5	Store layout and display	31
	2.6	Organization, management and ownership	36
	2.7	Personnel and qualifications	43
	2.8	Economics and profitability	47
	2.9	Summary	54
3.	U.S. Retail Trade Strategy		56
	3.1	Introduction	56
	3.2	Marketing strategy	59

3. U.S. Retail Trade ..(Continued)

3.3 Product 70

3.4 Price 78

3.5 Promotion 81

3.6 Purchasing strategy 88

3.7 Summary 95

4. Developmental Features of Seafood Consumption 95

4.1 Per capita consumption of seafood 96

4.2 Consumption of different types of products 98

5. Forces Behind Changes in Eating Habits and Shopping Patterns/Behaviour 100

5.1 Changes in demographic conditions 100

5.1.1 Age composition 100

5.1.2 Education, occupation and income 101

5.2 Changes in social conditions 102

5.3 Changes in lifestyle and value systems 104

5.4 Changes in attitudes, preferences and behaviour 108

5.4.1 Changes in attitudes and preferences 108

5.4.2 Changes in shopping patterns and eating habits 110

5.5 Summary 112

6. Changes in Strategy and Structure in the Retail Trade 114

6.1 Changes in product mix/positioning 114

6.1.1 New products, expansion of sales area and excess capacity 114

6.2 Changes in marketing mix 117

6.2.1 Push marketing versus pull marketing 117

6.2.2 Expanded customer services 122

6.3 Structural changes in the retail business 123

6.3.1 New technology 123

6.3.2 Mergers and acquisitions in the food industry 127

6.3.3 Foreign acquisitions and influence 130

7. Conclusion 133

7.1 Retail sales 133

7.2 Trends 136

7.3 Increased power in the retail sector 136

7..4 Future plans 138

Literature List. 140

1. Introduction

1.1. Background.

"Forum USA".

"Forum USA" was established as a joint forum for the Norwegian fish export industry. The objective of "Forum USA" is to create increased value and enhance the image of the quality of Norwegian fish products on the U.S. market. It is assumed this will create a solid base for improved identity and acceptance of Norwegian fish products in the U.S.A..

The Norwegian fishing industry must become more market-oriented on all levels through increased efforts in joint marketing aimed at the U.S. market for fish and fish products. The central issue is emphasis on enhancing the quality profile of Norwegian fish products on the U.S. market. This must form the basis for further export drives by individual players in the fishing industry. Joint activities under the auspices of "Forum USA" are intended to supplement the market activities of various firms and branches of the industry.

Focus on U.S.A.-related market research

Norsk Fiskeriforskningsråd (NFFR), the Norwegian Fisheries Research Council, has granted funds for U.S.A-related market

research in connection with "Forum U.S.A.". Furthermore, the fishing industry is providing funds to "Forum USA" through the following organizations:

* The Fresh Fish Export Committee.
  (Eksportutvalget for ferskfisk.)
* The Frozen Fish and Filet Export Committee.
  (Eksportutvalget for frossen fisk og filet.)
* The Fish Farmers´ Sales Association Ltd.
  (Fiskeoppdretternes salslag A/L.)
* Frionor Norwegian Frozen Fish Ltd..
  (Frionor Norsk Frossenfisk A/L.)
* The Information Committee on Shrimp
  (Informasjonsutvalget for reker.)
* Nestlé Norway A/S
* Norconserv
* Nordic Group A/L.
* The Norwegian Raw Fish Associations Marketing Committee
  (Norsk råfisklags Markedsutvalg.)

The participation of FTFI - Fiskeriteknisk Forskningsinstitutt- (Fisheries Technological Research Institute) in "Forum USA" was to survey Norwegian fish exporters´ basic conditions, resources, ambitions and experiences in the export of seafood to the U.S.A.. Furthermore, the FTFI compiled the exporting firms´ ideas, opinions and resource needs for

marketing, information,competence and other ways of effecting internationalization and export (see Olsen, 1988; Hanssen and Olsen, 1988).

Furthermore, studies were carried out with reference to the industry's need for additional studies, as requested in the first phase of the project. This included a review of secondary material with emphasis on functions and structures in the distribution system for fish products in the U.S.A., and particularly directed towards the U.S. retail trade (Hanssen, 1988 a; Hanssen, 1988 b).

This report forms part of a study in connection with the project "Structure and Strategy in U.S. Retail Trade", which is part of a project under the "Forum USA" programme.

1.2 Choice of topic.

This report looks at the U.S. retail trade, with special emphasis on the supermarket segment. The concept "retail trade" includes the activities carried out when selling goods and services to the end user (Stern and El-Ansary, 1982). Retail trade is a labour intensive industry and the retail trade in the U.S.A. is the country's third largest source of employment (Kotler, 1984).

Sales through U.S. retail trade have been growing in recent years even for fish and fish products. At the same time, however, the industry is marked by increasing competition which has contributed to a significantly larger degree of market orientation and innovation in the retail trade (Messenger, 1987). In order to meet customer demands for services, value for their money, variation in the product range and changing preferences, the retail trade has developed and improved its management systems through continuous market analyses, EDP-based financial management, greater emphasis on store design and changes in structure and forms of ownership (larger units, chains, and the like). The supermarkets have, to a greater degree, started to compete with national brands and food service outlets for the customer´s time and money (Messenger, 1987 b).

The producers have long directed and controlled developments in the supply of household necessities in the U.S.A.. In recent years, however, the development has been towards more power to the retail sector and there is now clearly a tendency for the producers to turn to market and retailer demands in order to have their products and brands sold through the distribution chain. The producers are changing their strategies and carrying out structural changes in

order to meet the challenges and competition in the food industry market, as well as to satisfy the demands of consumers and powerful distributors. It is of utmost significance for Norwegian exporters wishing to penetrate or wanting to maintain their position in the retail sector in the U.S.A., to have correct information about, and good understanding of, organizational and consumer behaviour.

1.3 Objective

The objective of this study is to chart structural features and internal resources in the retail business. In addition, the focus is directed to the strategy of the retail trade in marketing its products.

This is done to obtain a general overview and knowledge of U.S. retail trade to identify the options facing Norwegian exporters contemplating entry into this segment of trading. Charting and analysis of the retail trade structure, with emphasis on understanding the scope, signifiance and dynamics, help in understanding strategies used by retailers in marketing their products. The retail trade in the U.S.A. is dynamic in the sense that it continuously offers new forms of service to customers and develops new store formats to adapt to the changing lifestyle of the consumers.

One of the objectives of this study is to shed some light on trends in the U.S. retail trade, which have, or may be, of strategic significance to the retail trade. Changes in structural features in the retail trade, with emphasis on new technology, changes in strategy variables/marketing mix (expanded floorspace, expanded customer service, push marketing versus pull marketing), as well as changes in power relationships between retailers, suppliers/producers, etc., were charted and discussed.

The intent of the report is to provide a general overview of U.S. retail business, as well as to provide background information for use in evaluating and designing a primary study to be carried out in the fall and winter of 1988/89. The primary study will be more specifically directed towards important aspects in a selected group of retailers, with emphasis on the requirements and conditions which purchasers place on Norwegian producers and distributors of seafood. To begin with, the **trade** aspects were looked at, but the study also touches on a number of empirical aspects of significance to the sale of foodstuffs in the U.S. retail business.

1.4. Plan for data collection.

The study was carried out as a literature analysis and is

based on secondary data such as theoretical literature on the subject, trade publications, reports from trade and interest organizations in the retail business, consultants' reports, and public statistics, as well as case studies of retail firms.

Chapter 2 of the report looks at the structure of the U.S. retail business, with emphasis on understanding the dynamics and complexities of the retail trade, as well as attempting to create a picture of the importance of this industry in the U.S.A. today.

13.

Chapter 3 looks at strategy in the retail trade. This was done to obtain an overview of various market segments of interest to the retail trade and to obtain an overview of which market strategies and which strategy elements U.S. retailers utilize in their efforts to sell their merchandise.

Chapter 4 gives an overview of the development of per capita seafood consumption and the consumption of various seafood products over time in the U.S.A..

Chapter 5 deals with the various forces which influence sales through the retail business, with particular emphasis on shifts in demographic conditions, changes in social

conditions and changes in value systems and life style. These changes are reflected in changes in consumer attitudes, preferences and behaviour.

Chapter 6 takes a look at the various changes which have been made in the U.S. retail business to adapt to changing competition (as a result of changes in the conditions mentioned in Chapter 5).

Chapter 7 provides a summary of the most important conditions which have been identified through analyses of the literature, as well as plans for further study in connection with "Forum USA".

2. Structural Features and Internal Resources in U.S. Retail Trade.

2.1. Introduction

The retail trade is an industry of great significance in the U.S.A., and this industry has grown considerably in recent years. The complexity, importance and dynamics of the retail trade can best be understood through analysis of the structure of this industry. An analysis of the structure of the retail trade provides a better understanding of the strategies used by retailers when competing for the market. Due to pressure of profits margins, retail outlets have,

over time, steadily expanded their product assortment and product range in order to increase sales and to apportion their fixed expenses. The retail business of today, with its varied product selection, is a result of this development (Mason and Mayer, 1987).

Managers of present day retail businesses must continuously discover new ways to increase their company profits and growth potential. As the consumer market becomes more and more fragmented, it appears that an increasing number of retailers spread their activities over several areas, despite the increasing control problems and the increasing risk this entails. The retail trade therefore becomes more complex, which, again, is of significance to Norwegian exporters. This complexity causes exporters to be faced with several options when making a decision to enter the retail level; distributors and retailers must be found whose strategy and structure are suited to the expectations, requirements and capabilities of Norwegian exporters.

2.2. Classification of retailers.

The retail level consists of a series of different types of retailers, and these must be classified for purposes of analysis. Various methods used for classification of

retailers are, for instance, the division of retailers based on ownership, product lines carried in the outlets, or the strategy used by retailers (for example, large turnover, low prices, etc.).

Classification of retailers is important to chart differences in structure and strategy to enable exporters to choose appropriate retailers. The choice of retailer is a decision of great significance and may have long-term consequences for Norwegian exporters wanting to penetrate the retail sector in the U.S.A..

Classification by ownership.

Different types of ownership within the retail sector may include independent retailers, retail stores owned by branches of a certain trade, chain stores under the same owner, factory-owned retail chains, consumer cooperatives and retail outlets owned by the government (Hartley, 1984) (See section 2.6 concerning ownership within the retail trade).

Classification by merchandise and strategy.

Classification by merchandise carried in the stores and the strategies utilized by the retailers (particularly price strategy), is much used within the retail trade. Some

retailers carry a broad range of items in the trade, while others limit themselves to one or a few categories of goods. Some retailers use price as the most important element of strategy, while, again, others invest in products of high quality or particularly good customer services in the stores. The main types of retail stores, classified by merchandise and strategy are:

* **Department stores** which carry many categories of goods, often including furniture, clothing, household supplies, drugstore products and food. Examples of department stores are Bloomingdale's (New York), Filene's (Boston) and Marshall Field (Chicago).

* **Discount Stores** which carry goods at lower prices than the department stores. This is feasible because the outlets have large turnovers and low operating costs. Price Company, Wal-Mart Stores and Target Stores are examples of inexpensive stores in the U.S.A..

* **Supermarkets** which are large outlets with departments for various types of groceries. Supermarkets are normally based on self-service. They often carry products other than food, such as, for instance,

medicines, needs for mother and child, as well as household necessities. This is done because these products have a higher profit potential than most food items. Examples of supermarket chains in the U.S.A. are Safeway, Kroger, A & P, American Stores, Winn-Dixie and Lucky Stores.

* **Variety stores** which usually carry a large selection of low priced items. Variety stores are often referred to as "five and dime stores", even though the prices nowadays are mainly above this price range. Examples of such stores are: S.S.Kresge (K-Mart), G.C. Murphy and F.W. Woolworth.

* **Speciality stores** which carry a limited selection of products but, in return, have great depth in their assortments. Mervyn´s (California), Toys "R" Us (New Jersey) and Marshall´s (Massachusetts) are examples of such stores in the U.S.A..

* **Hypermarket** (Hypermarché) is a new term for outlets which may be classified as something between supermarkets, warehouses and discount stores. The hypermarkets emphasize large turnover and thereby attempt to offer the lowest possible selling prices.

The hypermarket concept was introduced to the U.S.A. as a response to the development of such outlets in Europe, where they have met with success. Hypermarkets have large storage areas and the merchandise is often placed in the stores in large stacks, almost like a warehouse outlet. Fedmart and Bigg's are examples of U.S. hypermarkets.

* **Convenience stores** are established to meet the needs of busy working people who have problems shopping during regular store hours. Convenience stores are often small outlets with late open hours, which carry prepared meals and food which can be prepared quickly. An example of such a chain of U.S. convenience stores is "7-Eleven", which is open between 7 AM and 11 PM every day (some are also open 24 hours a day).

15.

The grouping of the retail sector according to **size** of outlets/formats is a widely used classification method (Mason and Mayer, 1987, Kotler, 1984). The development of new store formats in the 80's, however, has led to the list of the various types of stores grouped according to size becoming rather extensive. The main features of this grouping are as follows:

* **Hypermarket:** 150,000 sq.ft. Supermarket and discount store/department store outlet under one roof.

* **Food warehouse outlet:** 100,000 sq.ft. Mostly groceries, some other items. Prices normally 7-10% below standard supermarket prices.

* **Fresh-food outlet/terminal:** 40,000-100,000 sq.ft. Mainly meat sales.

* **Super combo:** 55,000 sq.ft. Half and half groceries and other products.

* **Super store** (groceries): 36,000-40,000 sq.ft. Normal supermarket of a particularly large format.

* **Traditional supermarket:** 20,000-30,000 sq.ft. Since the beginning of the 80's these limits have been stretched in both directions, and today not only larger but also smaller outlets than this are defined as supermarkets.

* **Natural-product-based "baby shark":**
10,000-15,000 sq.ft. A large part of the floor space in these outlets is reserved for the sale of agricultural products and natural products. Lower prices than in supermarkets.

* **"Baby shark"**: 7,000-9,000 sq.ft. Standard outlet/storage for dry groceries. Prices about 20-30% lower than in supermarkets.

The outline of types of retail outlets (classified according to product types, strategy and size) show that there exists a number of different designations for store types. In the following, the main emphasis will be on supermarkets, since

Type of store:	Percentage of the total number of stores in the retail trade:
Conventional supermarkets	55.7%
Superstores	28.9%
Combination stores	11.1%
Food warehouse	3.5%
Other types of stores	0.8%

Table 2.1.: Various types of stores as percent of total number of retail outlets in the U.S.A.

(Source: FMI, 1987a).

that store format represents the largest number in the retail sector in the U.S.A.. The percentage of the total number of outlets in the retail business, distributed over various types of stores, is shown in Table 2.1.

2.3 Number of stores, size and turnover.

Number of outlets and size.

In 1986, 152,000 stores selling groceries in the U.S.A. had sales of US$ 2 million or more. Of these, 30,600 can be classified as supermarkets, of which 13,535 were independent supermarkets and 17,065 were supermarkets which were part of supermarket chains (Progressive Grocer, 1987). The number of independent supermarkets increased by 250 outlets in 1986, while the number of chain stores decreased by 155 over the same period.

In 1986 the average store size for independent supermarkets was 18,298 sq.ft., of which 13,960 sq.ft. was sales area. Corresponding figures for chain stores were 27,855 and 22,013 sq.ft., respectively.

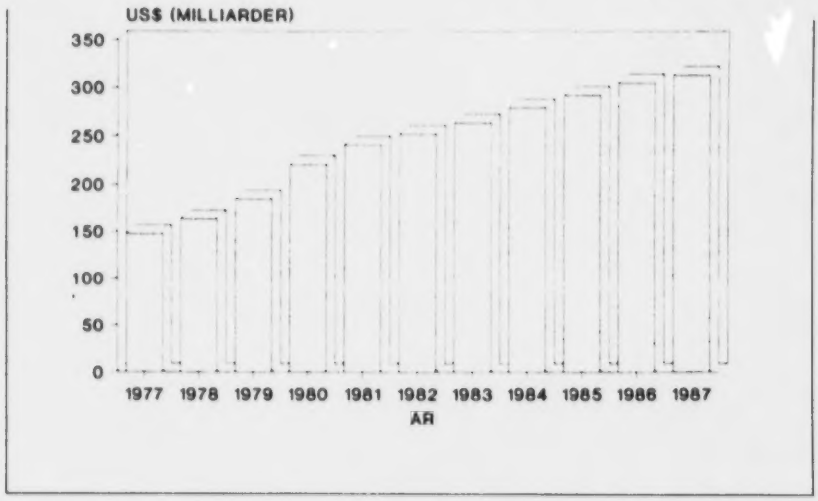
Turnover.

Sales of groceries in the U.S.A. show the following development for the period 1977 - 1987. (See Figure 2.1.).

Sales of groceries increased moderately from US$ 305 billion in 1986 to US$ 313 billion in 1987, a growth in turnover of about 2.6% (Progressive Grocer, 1988). In 1987 the sale of groceries through supermarkets was at about US$ 228,500 billion. Sales through supermarkets increased by 4.1% from

SALES OF GROCERIES IN THE U.S.A.
1977 - 1987

US$ (Billions)



Year

Figure 2.1.: Sales of groceries in the U.S.A. for the period 1977-1987. Source: Food Retailing Review 1986; Progressive Grocer, 1987 and 1988).

1986 to 1987, somewhat above the average for all retail outlets (2.6%). Sales through chain stores increased more than sales through independent retailers, with a growth of 4.2% for chain stores and 3.9% for independent stores.

With regard to sales of **seafood** and **delicatessen** products through U.S. supermarkets, the following figures should be noted:

PRODUCT GROUP	Sales through supermarkets (million US$)	
	1985	1986
Canned fish products	1,719,180	1,784,510
Frozen products	13,876,140	13,903,280
Delicatessen products	4,789,660	5,163,250

Table 2.2: Sales of individual product groups through U.S. supermarkets. (Source: Supermarket Sales Manual, 1986; 1987).

The growth in sales of canned fish products was 3.96% for the period 1984-85 and 3.8% for the period 1985-86. The growth in sales of delicatessen products in supermarkets was 8.85% from

1984 to 1985 and 7.8% from 1985 to 1986. The growth in sales of frozen products was 5.39% for the period 1984-85 and 0.2% for the period 1985-86 (Supermarket Sales Manual, 1986; 1987).

The increase in sales of **canned fish products** is explained by consumers having become more aware of the nutritional advantages of eating fish products. It is particularly the calcium content and content of cholesterol-reducing omega-3-fatty acids which are stressed as particularly advantageous (Supermarket Sales Manual, 1987). Even though the producers of canned fish products are noticing increased competition from fresh seafood products, the sales of canned salmon, tuna, anchovies, sardines, herring, crab and oysters/mussels showed a rising trend. Sales of canned shrimp were reduced by 0.05% for the period 1985-86. Sales of canned salmon increased by about 7% from 1985 to 1986. This was due, in part, to extremely good catches of "pink salmon" in 1985 and, in part, to an extensive marketing campaign for canned salmon which was carried out in the mass media ("Think Pink").

With regard to sales of **delicatessen products**, hot prepared meals, ethnic specialities (Italian, Mexican, Cajun), gourmet salads and lean meat were among the most popular dishes (Supermarket Sales Manual, 1987). The largest producer of salads in the U.S.A., The Orval Kent Food Co.,

increased its sales by 20% from 1985 to 1986. This producer alone estimates sales in 1987 to be around US$ 200 million. Another large producer of salads, and Orval Kent's largest competitor, Blue Ridge Farms of Brooklyn, recorded an increase in sales of 20% from 1984 to 1985 and an increase of 22% the following year (Supermarket Sales Manual, 1987).

Total sales of **frozen products** increased by 12% during the period 1983-84 and by 5.4% during the period 1984-85. In 1985-86, however, sales showed only small growth (0.2%). This is partly due to greater competition for space in the supermarket freezer sections. In addition, the frozen products available in supermarkets today have a greater proportion of expensive products than in previous years. Many of the products introduced to consumers in recent years, and which were the cause of the growth in sales of frozen foods in previous years, have today been replaced by more expensive products. This is related to the fact that frozen products have lately been characterized as being of higher quality and have a more "trendy" image, particularly among busy working people with money to spend.

The increase in sales of frozen prepared meals is a result of the increase in microwave ovens in U.S. homes. It is estimated that as of 1987 microwave ovens could be found in

60% of all U.S. homes. By 1990 it expected that 90% of all U.S. homes will have microwave ovens (Supermarket Sales Manual, 1987).

Sales of frozen breakfasts, baked goods and prepared seafood meals showed the greatest growth in the frozen food sector in 1986. Prepared dinners with low calorie contents are also very popular products. Total sales of frozen prepared meals in the U.S.A. was US$ 3,982,070 million in 1986. That same year total sales of frozen main meals was US$ 2,488,820 million and for frozen, unprepared seafood products total sales were US$ 473,230 millon (Supermarket Sales Manual, 1987).

The growth in sales of delicatessen products and frozen and canned goods in the retail markets is here particularly emphasized. The reason for this is that entry into this sector of the U.S. retail market is of most interest to Norwegian exporters.

Regional differences in supermarket turnovers.

The period 1981-85 showed that the strongest sales growth for groceries was recorded in the northeastern region of the U.S.A. while the weakest growth was found in the midwest. Greatest total sales were measured in the southern region

for the same period. Investigations carried out by The Food Institute show that the growth in sales of groceries does not, as had been expected, follow the trends in population growth. The northeastern region of the U.S.A. showed a population growth of 1.1% for the period 1982-85. During the same period the increase in sales was 12.9%, far higher than the other three regions of the U.S.A. (south, west and mid-west) (The Food Institute, 1986.) Figure 2.2 shows the division of the Northern U.S. States into regions:

Figure 2.2: U.S. states by region.

(Source: The Food Institute, 1986).

The ten largest individual markets in the U.S.A. represent about 22% of the total retail turnover in the country. These markets include Los Angeles, Long Beach and the San Francisco-Oakland area in California, New York City, Chicago, Philadelphia, Detroit, the Boston area, the area surrounding Washington D.C., Houston and the Dallas-Fort Worth area (Mason and Mayer 1987).

There is a widespread view that retail sales in the U.S.A. are proportional to the increase in population, and that sales, on the average, have increased about three times as fast as the increase in the population of the country (Mason and Mayer, op.cit.). However, the figure mask consumer behaviour in different income groups. In recent years, the behaviour of consumers in low income groups in the U.S.A. has been influenced by increased energy costs and higher prices for food and household supplies. At the same time the high income groups have continued to show high consumption. Consumers in the high income groups and in the higher middle class represent 40% of the total number of households in the U.S.A., and these groups are responsible for 60% of the consumption at the retail level in the trade (Mason and Mayer, op.cit.).

Even changes in purchasing patterns reflect changed sales

mixes in the retail trade, and the purchasing pattern is probably less tied to population changes than previously assumed. Present outlets stress the importance of meeting the special needs of customers to a greater degree than before, resulting in customers spending more money in the supermarkets and that, again, contributes to higher sales figures.

2.4. Location and size of trading areas.

An important decision for a retailer, when setting up a store, is where to locate the outlet. A poor location limits the profit potential for the retailer and it is therefore of great importance that the site be right. Two key elements in all theory on location is "threshold" (demand for products of a certain line of business must be over a certain minimum) and "range" (maximum distance customers are willing to travel in order to buy specific products) (Mason and Mayer, 1987).

The decision where to locate a store involves two main considerations. Firstly, the retailer must determine the main area suited for the purpose, that is, a town or trading area. Secondly, the retailer must choose a specific location within the trading area (Hartley, 1984). The following factors must be considered when selecting a trading area:

* Population factor, particularly its size, characteristics and income.

* Size of trading area from which the store customers come.

* Competition in the line of business desired.

* Other factors, such as for instance, unemployment, dependency on one or few main industries, complex legal regulations in the area; regulated closing times, price levels, licencing and taxation, traffic flow and proximity to main roads/main arteries, etc..

The retailer must also ask himself the following: Is the population of the area increasing? Is the income of the population rising or falling? Is growth of income slower than in other trading areas? Is competition stable or constantly changing? Are there any special legal regulations for this area in particular? And so on.

In the U.S.A., the U.S. Bureau of the Census has developed a method of classifying the population of an area ("The Standard Metropolitan Statistical Area " - SMSA). Each SMSA is an integrated economic and social unit consisting of a minimum of 50,000 inhabitants, and contains data on

population size, composition, employment, wholesale and retail trade and population income. Such data can be of great help in analysing various trading areas with regard to potential for establishing retail outlets. "Standard Consolidated Statistical Area" - (SCSA) is a unit similar to SMSA, but here the requirements are that inhabitants must live in large cities and urban areas, and have a population of no less than 1 million people. As of 1984, the U.S. authorities have recorded 13 different SCSA and these units constitute a total of about one-third of the population of the U.S.A..

When a retailer decides on his trading area, then a specific site for the outlet must be selected. The retailer must assess various factors such as, accessibility (public transportation, parking, etc.), traffic flow at the site, location in relation to interstate highways, economic considerations of establishing on a given site, as well as assumed stability of the existing sources of income in the neighbourhood of the site in question (Mason and Mayer, op.cit.). The selection of a specific site has implications for other elements of the retailer's marketing plan. It may, for instance, be necessary to put a lot of money into promotion to offset the selection of a poor site. On the

20.

other hand, the selection of a particularly expensive site may have consequences on the expense side of the ledger thereby making the operation of the outlet more costly.

In recent years, a shift has been noted in the location pattern of grocery stores in the U.S.A.. Old locations have been rebuilt and new large department stores have been established in inner city areas in large cities (Mason and Mayer, op.cit.). The central trading sites with large shopping centres outside the cities are therefore in danger of losing their appeal to customers who wish to make all their purchases at one stop. The new department stores in the centre of towns/cities also offer retail outlets, office space, entertainment, eating places and a number of other conveniences for their customers.

2.5. Store layout and display.

The presentation of a store's selection of products through store layout and display is becoming more and more important as competition in the retail trade increases. The layout of the store includes two main elements, the **interior** of the whole store and the **allocation** of space to the various departments. Store layout and display are critical elements in the marketing plan of the retailer. Some retailers

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nowadays implement planning of almost continuous changes in store layout and display in order to satisfy customers' demands for excitement and change when they shop. Flexibility with regard to inventory and shelving in the store are used more and more in the U.S. in the merchandizing of everyday products and more attention is being paid to presentation of products in the stores (Mason and Mayer, 1987) The main objective of all store layout and display is to encourage customers to spend as much money as possible on each visit to the store. At the same time, the customer must be able to compare related products and feel that he/she makes intelligent/rational choices based on the desire for inexpensive products, high quality or stylish articles.

Mason and Mayer (op.cit.) have identified three typical models for store layout: "grid", "free flow" and the "boutique" concept.

"The Grid Lay-out" is designed for the greatest possible efficiency when shopping, and not the greatest possible convenience. All counters and shelves are at angles to each other and together form a maze-like picture. The layout functions as a barrier to free flow (See Figure 2.3).

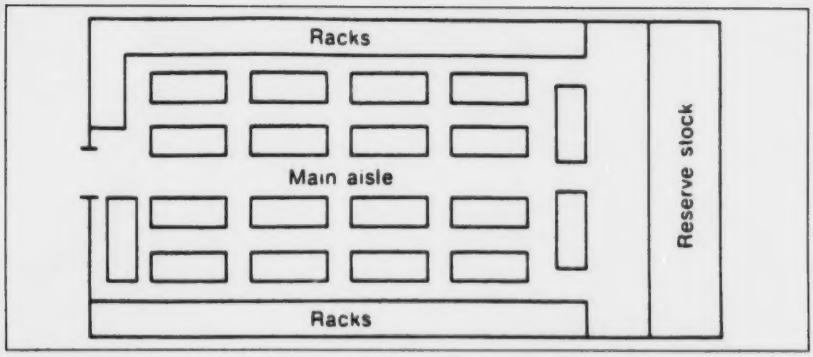

Figure 2.3 . Grid Layout as a model for store layout.

(Source: Hartlet, 1984).

The **"Free Flow"** concept is a store layout where the counters are grouped in a pattern permitting free and unobstructed movement in any desired direction (see Figure 2.4). 21.

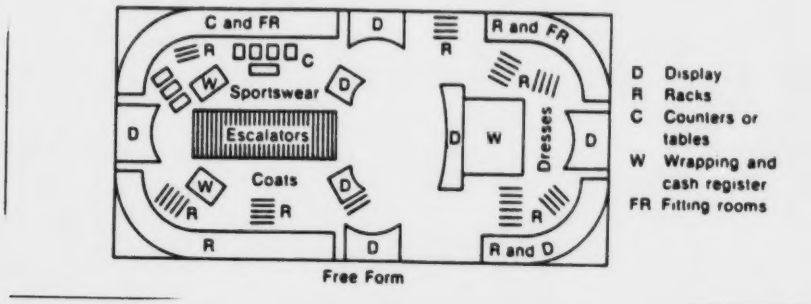

Figure 2.4.: "Free Flow" as a model for store layout.

(Source: Hartley 1984).

The **Boutique** concept is based on the store being laid out so that each department is seen as "a shop within a store". Each "boutique" is often aimed at a special group of customers and often segmented on the basis of life style (see Figure 2.5.):

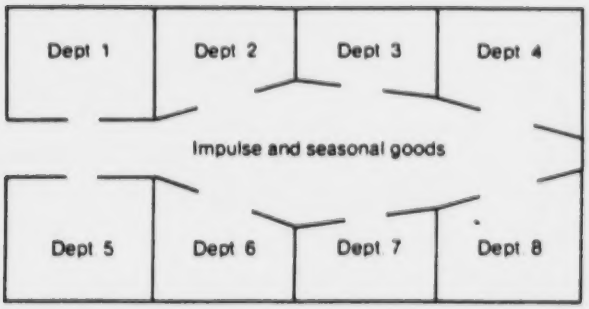

Figure 2.5.: "Boutique" concept as a model for store design.

(Source: Hartley, 1984).

Between 65 and 85% of a retail store's total floor space is normally usable as selling area (Mason and Mayer, op.cit.). The allocation of the selling area to various departments

or products may be made on the basis of several factors. First, the selling area can be allocated according to expected sales of a product group divided by the average sales per square foot of selling area of these products in the industry as a whole ("Sales Productivity Method"). Second, the store's selling area can be allocated so that new products are introduced in a relatively small area of the store. As these products become better known and sales increase, they can be given more space.

Since U.S. retailers have more and more converted to self-service in their outlets, in-store customer information has become much more important. Management constantly seeks new means of communication which are not labour intensive and are low in cost, to disseminate information about the store and its product assortment to the customers. Here, graphic illustrations, signs and packaging, play important roles. There should be as few as possible notices displayed in the stores concerning prohibitions and restrictions, such as "only two articles to a customer", "no smoking" and "shoplifters will be prosecuted".

2.6 Organization, management and ownership.

Organization and management.

It is important for Norwegian exporters wanting to sell their products at the retail level in the U.S.A. to have a good knowledge of the organization and management of this market. They will thereby learn to understand who makes decisions of significance in the matter of sales of Norwegian seafood products through the retail trade. The exporters will then also learn how their products are treated by acquiring an understanding of organization and management in the retail trade.

Organization is necessary for any independent retailer or chain of retailers if the accepted objectives are to be reached. According to Mason and Mayer (1987), good management entails that the manager develop a natural and accepted balance between the following organizational and management aspects:

* Specialization of labour.
* Departmentalization.
* Span of control
* Unity of command.

Specialization of labour is the element of organization

which, by itself. is of greatest significance. This element helps determine the content of each individual employee's job. Division into departments determines, among other things, how the different work operations are to be grouped. Span of control refers to the number of persons reporting to a supervisor. The unity of command concept can be viewed as a series of superior/subordinate relationships.

The organization chart provides a picture of functions, line of authority and responsibility within a retail firm. Ideally, such charts present a clear picture of the business, but the organization chart is often presented in very simplified form. Organization charts may be made on the basis of function, products, geography or a combination of these factors.

Specialization on the basis of **function** is most common in the U.S. retail business. Here every individual worker is given responsibility for individual work tasks such as, for instance, purchasing, sales promotion/marketing, operations, control, finances or personnel. Specialization based on **product** is quite common in supermarkets. Here workers will belong to various departments, such as dry products, meat, fish, frozen food, delicatessen, produce department and so on. Organization based on **geographic location** occurs in,

among others, large supermarket chains within the retail trade. Here, the personnel is grouped according to their geographic region. **Combinations** of various organizational possibilities may also occur. Large retail units may, for example, organize their management based on functions, and purchasing functions may be based on products.

The purchasing function for fish and fish products is often divided into purchase of frozen fish, fresh fish, delicatessen and canned products. This has implications for the vendor who must promote his merchandise to different people, according to the product he is selling. Two retail firms have rarely or never the same organizational pattern, and differences in organization patterns can particularly be recorded between, for example, department stores with various departments and chain stores. Management functions and responsibility particularly stand out as more centralized in chain stores than in department stores.

Chain stores also have closer supervision and better follow-up of the various activities as well as more frequent reporting from the individual outlets to the management of the whole chain (Masonand Mayer, op.cit). Figure 2.6 presents an example of an organization chart for a chain store in the food industry in the U.S.A. (Albertson's Inc.).

23.

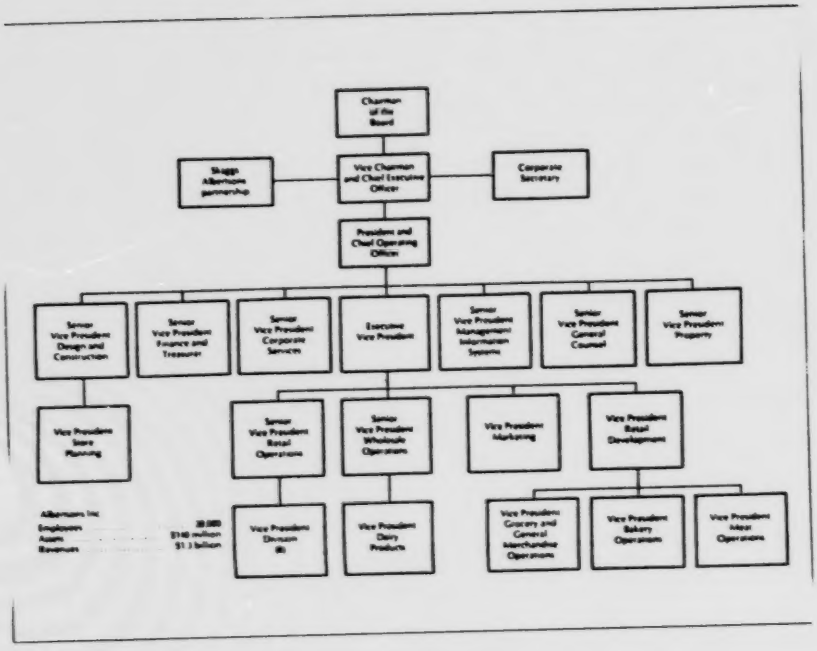

Figure 2.6.: Organization chart of Albertson's Inc. chain stores as an example of a company in the food industry in the U.S.A.

Source: Janger, 1977)

Ownership

Independent retailers with a single outlet dominate the retail structure in the U.S.A. when one looks at the total number of retail outlets in the country (Mason and Mayer, op.cit.). This group constitutes about 83% of all retail outlets in the U.S.A., and the turnover through these

independent retailers is about 53% of total retail sales in the country. A retail firm with one single outlet is often a small store operated by members of the owner's family. These small businesses are competitive due to, among other things, the following factors: They normally have low operating and rental costs since the site is often owned by the store owner, the outlet is often located closer to the customers than are large shopping centres and, there is often a close relationship between the owner, employee(s) and customers in these stores. The latter factors enable such stores to build up a unique personal atmosphere in the store.

Retail chains are recognized by the following characteristics: The sale of particular products takes place through more than one store, the various stores which belong to the same chain have architectural formats which are similar to each other, they have centralized buying and common ownership. The manager of each individual chain store often participates in the selling but, normally, has little influence over the assortment of merchandise carried by the store. Such decisions are made centrally and the chain stores must follow directives from the top management for the whole retail chain. Chain stores have some drawbacks when compared to independent retailers. They suffer from

higher general costs ("overhead"), less operational flexibility and lack of contact between customers and owners. In addition, there are more legislative regulations applicable to chain stores than to independent retail outlets.

Manufacturer owned retail outlets are a result of vertical integration forward in the value chain, from production to distribution to retail sale. This integration is practiced in the belief that it is the most profitable distribution alternative (the desire to have control over distribution and contact with the market), that it provides the manufacturer an opportunity to experiment with various sales methods to increase sales, as well as providing opportunities to introduce new product innovations. In the U.S.A., vertical integration forward from producer to retail level is particularly widespread in the large oil companies which set up gasoline outlets as the need presents itself.

Government owned retail outlets are found in some lines of business in the U.S.A.. Examples of such outlets are stores which serve military personnel. The U.S. Department of Defence has sales of more than US$ 8 billion annually, making it North America's fifth largest retailer (Mason and Mayer, op.cit.). Governments in the U.S.A. also own outlets which carry alcoholic beverages. The primary reason for

these authorities establishing stores in the retail trade is mostly to achieve special social objectives. Such objectives may, for example, be to limit the use of alcoholic beverages.

Farmer owned retail outlets are few in number in the U.S.A.. In some cases, the farmers set up outlets along main traffic arteries during the harvest season. In other cases, the farmers have established more permanent retail stores, where they are the main suppliers, and outdoor markets where they sell agricultural products. The latter type of outlet has experienced a renaissance in U.S. retailing, and in recent years outdoor markets for agricultural products have sprung up in cities such as Chicago and Washington, D.C..

Consumer-owned cooperatives are retail outlets owned by the consumers, using hired operating personnel and management. This type of ownership structure has, so far, not had much success in U.S. retail business. This is because the advantages of membership in such cooperatives have, in only a few cases, been sufficiently large for groups of consumers to sign up - and then for social reasons such as low income. Lower prices has been one of the desired advantages of membership and this advantage has not drawn any special support for the cooperatives (Mason and Mayer, op.cit.).

Cooperatives are based on the "one member one vote" principle, regardless of how many shares the member owns. Prices are competitive and the members receive dividends at the end of the fiscal year, depending on contact and trade with the cooperative throughout the year. The largest consumer-owned retail cooperative in the U.S.A. is Consumers Cooperative of Berkeley, Inc., in California. There are about 3,000 retail cooperatives in the country, with a total membership of about 3.5 million and sales totalling about US$ 500 million (Mason and Mayer, op.cit.).

2.7. Personnel and qualifications in the retail trade.

For retailers operating on a large scale, the quality and abilities of the work force greatly influence the results achieved by the business. Retail trade is a quite labour intensive industry and expenses for wages constitute a large portion of the total operating costs of a retail business. Because of this, managers in the retail trade have, in recent years, placed great emphasis on increasing the productivity of the industry and the focus has particularly been on better selling techniques on the part of personnel. However, the quality of the work produced has also been given attention (Mason and Mayer, op.cit.).

Personnel.

Sufficient staffing is an important factor in retailing. At the beginning of the 70's, the rate of growth in the size of the work force showed signs of a weak decline, a trend expected to last far into the 90's (FMI, 1987 a). For 1980-84, the average annual growth rate was 1.3%. For the years 1984-90, the average annual growth rate is expected to be about 0.9% and even lower for the years 1990-95. An increase has been noted in the averge age of personnel in U.S. supermarkets and fewer and fewer young people appear to be interested in this line of work.

25.

The number of man-years in the U.S. retail trade is calculated in full-time equivalents (FTE), each consisting of 2,080 hours per year. A typical full-service retail outlet with a total floor space of less than 30,000 sq.ft., has, on average, 40.5 full-time employees (FTE). Smaller stores have a work force composed of 59% part-time workers and 41% full-time employees. The corresponding figures for larger stores are 56.4% and 43.6%, respectively. Department stores and shopping centres with no full service have a lower number of employees per outlet and they use a higher percentage of pert-time employees than do full service stores. There is a large turnover in the work force in the U.S. retail business.

Each month an average of 1.6 new people are hired on a full-time basis and 6.5 on a part-time basis in each store with approximately 40 employees. The total number of employees in the retail business in the U.S.A. was 1,341,610 on a full-time basis (FTE) in 1986 (FMI, 1987, a).

Qualifications.

As the U.S. retail business has grown and become more complex, the demands on the level of qualifications of managers has increased. The time when clerks who worked the hardest became department managers, and the department manager who headed the best department became store manager, is past. Today there is a demand for formal education, and managers must update their own qualifications in step with developments in the retail trade in general. Today's supermarkets are larger than before, they have more employees than ever and technological development is having its impact on the industry. In order to succeed, supermarkets must follow developments in the industry and managers must be competent in several fields such as computer technology, personnel administration and store management, purchasing and merchandising tactics, and competitive strategy, as well as planning and customer contact. The ability to delegate

responsibility from store manager to department managers has become more necessary as the complexity of the retail trade has increased.

Sansolo (1985) refers to a U.S. study on the management requirements that can be expected in the future. The study shows that managers in both independent retail stores, as well as in chain stores, agree that the ability to delegate work down the chain of command will be important in the future. Of the managers questioned, 87% feel that the demand for more effective personnel management will increase with the increasing number of employees. The ability to set goals and achieve them is also regarded as a very important management task. This also applies to directing employees, planning, use of computer technology, ability to take the initiative, creativity, ability to give constructive criticism, and so on. One of the points emphasized as an important property is a manager's ability to exercise a certain form of guidance to the employees and his ability to issue directives (a total of 86% of the respondents agreed on this point). In order to provide guidance a manager must have good communications skills. That a manager take part in most work operations is regarded as less important.

In the past, managers in the U.S. retail business have had

a relatively low level of formal education. A study of the level of qualifications and management tasks in the retail business shows that only 8% of the respondent managers had college education or management training programmes before they assumed their management positions. Eighty-five percent of the respondents had achieved their positions as managers through advancement. However, there is a broad opinion that future managers will, to a greater degree, reach their positions through formal education, despite the fact that some maintain that college education is not necessary in order to be a manager in the retail business (Sansolo, op.cit.).

2.8. Economics and profitability

Margins and rate of turnover.

Ronald Gist (1968) has developed an approach for studying structural characteristics in the retail sector. This approach which is based on **margins** (percentage of gross profit taken from an item) and the turnover rate (rate of turnover - indicates how many times stock is turned over per year), may be used in all types of retailing and may be useful when classifying various outlets. The turnover rate of a store is useful when the average storage period in days must be calculated. Average storage period = 365 days

divided by turnover rate (Johnsen and Myre, 1981, Opplysningsutvalget for fisk, 1983) (Norwegian Information Board for Fish).

26.

Figure 2.7 shows a classification chart based on margins and turnover rate.

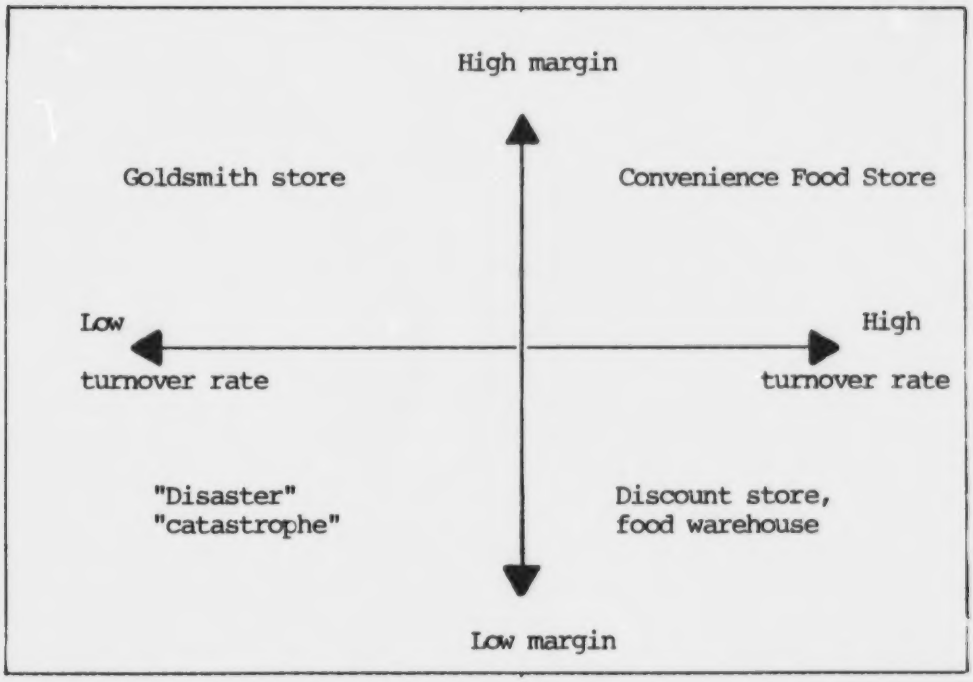

Figure 2.7: Classification based on margins and turnover rate.

(Source: Gist, 1968).

The prototype for outlets having low margin and high turnover rate is a store which carries products which "sell themselves". Self-serve stores in the food sector which carry reasonably priced goods are examples of such outlets. The more expensive food stores, where a broader range of services is offered to the customers, often have higher margins even though the turnover rate for the products is the same. This is because those outlets offering good

Supermarket:	Gross margin (%):
Arden Group	37,6
Giant Food, Inc.	28,9
Big Bear	27,1
Weiss Markets, Inc.	26,0
Safeway Stores, Inc.	24,3
Hannaford Bros. Co.	24,3
American Stores Co.	24,1
Waldbaum, Inc.	23,7
Farm Fresh	23,0
The Grand Union Company	22,9
Publix Supermarkets, Inc.	22,5
Albertson's, Inc.	22,0
Winn-Dixie Stores, Inc.	22,0
Delchamps	21,4
The Kroger Company	21,1
Bruno's, Inc.	20,2
Food Lion, Inc.	18,5
Roundy's	10,4

Table 2.3: Overview of average annual turnover rate of stock in various types U.S. of retail stores. (Source: The Food Institute, 1986).

customer services and having a high quality image also demand the highest prices for their products (Mason and Mayer, 1987).

A recent study of profitability among a selection of U.S. supermarkets (n=18, total sales of more than US$ 90 billion), shows the following gross margin for the supermarkets involved (see Table 2.3 above).

27.

The average gross margin for the sampled supermarkets was 23.3%, the lowest measured margin was 10.4% (Roundy's) and the highest margin was 37.6% (Arden Group). A U.S. study of the turnover rate in the U.S. retail trade, carried out among various store formats within the retail trade, shows the following figures for average annual turnover rate. (See Table 2.4 below).

As is evident from the table, the speciality stores/stores with limited selection of products have the highest annual turnover rate of stock (40). Supermarkets have a turnover rate (19) of about half that of the speciality stores. A turnover rate of 40 expresses that the store's stock has been changed 40 times per annum. The turnover rate for convenience stores is 12 on the average, which means the stock changes every month.

Type of outlet	Average annual turnover rate
Speciality stores	40
Larger shopping centres	30
Super stores	26
Department stores	24
Combo	22
Conventional supermarkets	19
Cash & Carry	16
Hypermarkets	13
Convenience stores	12

Table 2.4: Average annual turnover rate of stock for various types of retail stores in the U.S.A.

(Source: The Food Institute, 1986).

The costs of operating various types of retail outlets must be considered in the context of gross margin, when the profitability of the operation is to be assessed. Livingstone and Tigert point to two different directions which an outlet may follow to achieve profitability in operation (op.cit.). In the one direction, the outlets can

be based on types of merchandise with high gross margins (high price products, high quality, good customer services), which may also result in higher costs for operating of the store. The other direction is to deal in products having low gross margins (lower prices than the competitors), while at the same time anticipating low operating costs. The following example provides a picture of profitability in an operation when a retailer has decided to follow one of the two directions:

	Gross margin	Oper. costs	Oper. profit
High gross margin and high operating costs:			
* Big Bear	27.1%	23.1%	4.0%
* Giant Food	28.9%	24.1%	4.8%
Average for all supermarkets:	23.3%	20.0%	3.3%
Low gross margin and low operating costs:			
* Bruno´s	20.2%	15.4%	4.8%
* Food Lion	18.5%	13.3%	5.2%

Table 2.5: High vs. low gross margin, high vs. low operating costs, effects on profit by operations.

(Source: Livingstone and Tigert, op.cit.).

This comparison clearly shows the differences between the two types of operation while at the same time the similarity in results when using different methods of operation. Both generate high profits.

Success in the retail market seems to be the result of either "cost management" or "service management" (Livingstone and Tigert, op.cit.). Food Lion, Inc. is a prime example of a cost leader in the retail market and the chain is also the supermarket chain which has been growing the fastest in the U.S.A. today. Giant Food, Inc. and Big Bear are examples of service leaders, and both are successes in the U.S. retail market. The high quality, high cost and high service position which some supermarkets chains, such as, for instance, Giant Food and Big Bear, have taken, reflect the store format best described as "fresh product superstore". These chains offer their customers both high quality and a very good selection of meat, delicatessen, fish, baked goods and produce.

Among U.S. supermarket chains the small, regional chains with annual sales of up to US$ 3 billion, show the best results. However, these chain stores also have the poorest results among the supermarket chains. Large national chains,

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however, show results around the average for U.S. supermarket chains (Livingstone & Tigert, op.cit.).

2.9. Summary

In this chapter we have focused on structural characteristics within the U.S. retail trade. This has been done to obtain a better understanding of the dynamics and complexity of the retail business, as well as to create a picture of the significance of this industry in the U.S.A. today. An understanding and knowledge of the structural characteristics enables one to better assess the retailers' marketing strategy.

The retail business in the U.S.A. is a complex industry with a large number of players and various types of retail stores. The various store types are classified based on ownership, type of merchandise carried by the stores, as well as the strategies of the stores to attract customer target groups. The various methods of classifying retailers produces a **very broad** range of designations for various types of stores. In practice, however, supermarkets, "super stores", combination stores and food warehouses have the most outlets.

Retail sales have grown over time and in 1986 constituted

more than US$ 300 billion. The growing markets for seafood and delicatessen products, canned fish and frozen products, could open up possibilities for increased retail sales of even Norwegian produced fish products.

In the U.S. retail trade, location patterns, layout of the stores and presentation of the products have changed. The trend appears to be leaning towards locating food stores in the inner city to a greater extent than before (Mason and Mayer, 1987). Trading areas with large shopping centres outside the cities may therefore be weakened in time. Store layout and product presentation have also been changed towards more flexible design in order to satisfy customer demands for more excitement and changes when they shop.

In organization and management, specialization of labour has become more common as firms have increased in size and complexity. The responsibility of the individual staff members has, to a great extent, been limited to one or a few work tasks, such as purchasing, store sales, marketing, operations, finances or personnel matters. On the personnel side, however, the growth in the size of the work force has shown a decrease from previous years (FMI, 1987 a).

The retail business shows, to some extent, great differences

with regard to margins, operating costs and operating profits. However, the average for all **supermarkets** is a gross margin of 23.3%, operating costs of 20% and, from that, an operating profit of 3.3%. Large national supermarket chains show results around the average. Small regional chains with annual sales of US$ 3 billion show the best results - but also the poorest results. (Livingstone and Tigert, 1987).

3. U.S. Retail Trade Strategy.

3.1. Introduction.

Knowledge of strategy in the retail trade may enable exporters to better choose retailers which suit their prerequisites, demands and capabilities. Exporters will be faced with several different options in the selection of retailers when they learn which strategies the different retailers utilize in selecting their target markets, positioning in the market and when purchasing products for their outlets.

Strategy can, according to Holbek (1984), be defined as a "series of steps" which the company takes to achieve further defined targets. The strategy of a company can be broken down into three main variables; **product, market, and form of marketing** (Lund and Lorentzen, 1978).

The retail trade has several options when choosing areas or elements of strategy. It is, however, natural to modify the strategy areas of the retail trade in relation to those of other parts of the distribution system. For instance, the retail sector's strategy with regard to distribution is of lesser significance than the distribution strategy at earlier stages of the distribution chain.

There are several elements of strategy which are particularly important within the retail trade (Hartley, 1984; Kotler, 1984; Mason and Mayer, 1987). First of all, any strategy aimed at the market is of great importance. This includes selection of market segment, target market and position in the market. Once a retailer has decided to operate within one or more segments in the market, then the next step is positioning within the market segment(s) of interest. Positioning within given segments involves the use of marketing mix variables such as product, price and promotion. Product strategy ("product") includes the selection of product profile (image), brand strategy and product range/assortment (width and depth). In price strategy ("price") lies the selection of price level - which is closely related to product quality (store image) - as well as the selection of market strategy. Promotion strategy

("promotion") is the next element of great importance to the retail trade. This includes customer services, publicity, sales promotion and advertising. The last component mentioned here is purchasing strategy which includes the selection of suppliers, the relationship to them, purchasing planning and decisions concerning stock.

Figure 3.1 shows how Mason and Mayer (1987) illustrate the sequence in the development and implementation of marketing strategy in the retail trade. 30.

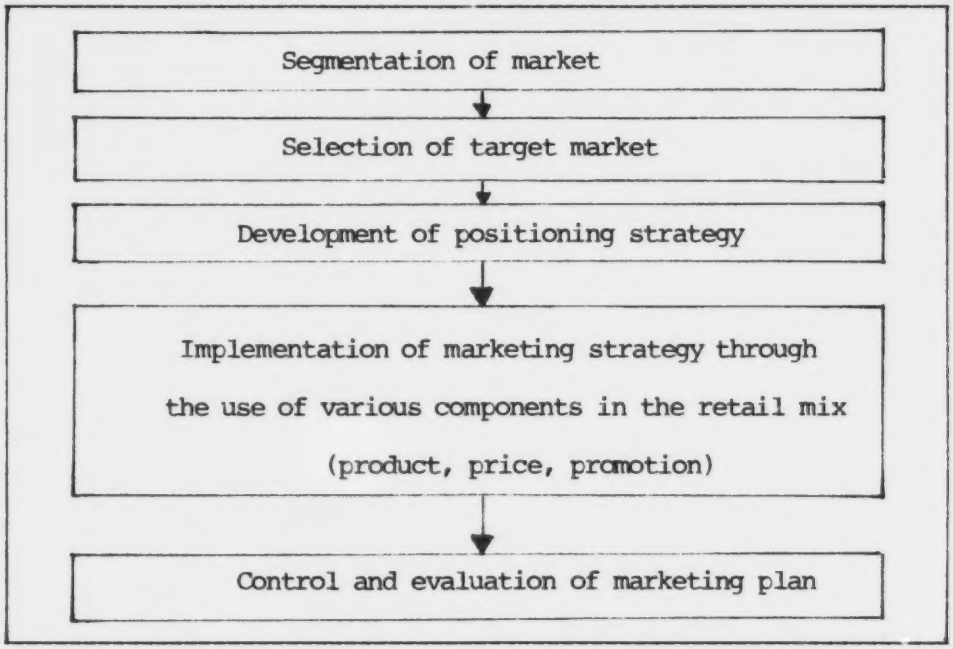
Segmentation of market
Selection of target market
Development of positioning strategy
Implementation of marketing strategy through the use of various components in the retail mix (product, price, promotion)
Control and evaluation of marketing plan

Figure 3.1: Development and implementation of marketing strategy.

(According to Mason and Mayer, op.cit.)

3.2. **Marketing strategy**

Markets consist of buyers, and these buyers differ from each other in many ways. Kotler (1984) points to four groups of variables which differentiate between buyers; geographic, demographic, psychographic and behavioural.

Sellers can, according to Kotler (op.cit), approach the market three ways. Mass marketing is the result of a decision to produce and distribute a product and reach all types of customers. Product differentiation consists of producing two or more items which are different with regard to style, properties, quality, size and thereby suited to provide a variation in the market and to differentiate them from competing products. Target marketing consists of differentiating between the various groups which constitute the market, as well as developing corresponding products and marketing mix for each target market (Kotler, op.cit.). The present trend is towards target marketing and away from mass marketing. Market segmentation, selection of target market and positioning of products are central concepts in target marketing.

Kotler (op.cit.) maintains that target marketing is a process which occurs in three stages. The first stage is market

segmentation, where the market is divided into distinct groups of shoppers who require separate products and/or marketing mixes. The second stage is the selection of target market, where evaluation and selection of one or more market segments within which one will operate take place. The last stage is product positioning, which consists of formulating a competitive position for the product and arriving at a detailed marketing mix (combination of the strategy elements "product", "price", "promotion" and "place").

Market segmentation: A conceptual framework.

Market segmentation may be defined as the division of a market into given groups of customers who require different products or marketing mix (Kotler, op.cit.). An important task will therefore be to analyze various variables to determine which of these provides the best segmentation opportunities. The segmentation variables most important to the consumer markets are geography, demography, psychography* - and behaviour (Kotler, op.cit.); Mason and Mayer, op.cit.). Typical classification variables used to segment markets are shown in Table 3.1.:

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* Author writes psychology. I presume she means psychography.Tr

VARIABLES	EXAMPLES
1. **Demographic:**	
- Age	Below 20, 21-30, 31-40, etc..
- Sex	Female, male.
- Family size	1-2,3-4, 5+
- Income	Below 100,000, 100-200,000, etc..
- Education (yrs.)	0-9, 1--12, 13-18, more than 18.
- Occupation	Unemployed, home-worker, management, subordinate, etc..
- Religion	Catholic, Protestant, Jewish.
- Race	White, Black, Oriental.
- Nationality	American, Spanish, Japanese, etc..
2. **Geographic:**	
- Region	Northwest, Southwest, Mid-West
- Climate	Tropical, semi-tropical, arctic.
- Population density	Urban, sub-urban, rural.
- Population	Below 10,000, 10-100,000, etc..
3. **Psychographic:**	
- Social status	Middle class, upper class, etc..
- Attitudes	Progressive, conservative, liberal.
- Life style	Interests, attitudes, opinions.
- Needs	Status, quality, service, etc..
4. **Behavioural:**	
- Family life cycle	Single, newly married, with/without children.
- Attitude towards products	Enthusiastic, positive, negative.
- Consumer status	Non-user, potential, user.

Table 3.1: Main variables for market segmentation in consumer markets.

(According to Kotler, op.cit.; Mason and Mayer, op.cit.).

31.

Demographic segmentation is often used to differentiate between various user groups. This groups of variables (for instance, age, income, sex, race) is also much easier to measure than most of the other variables.

Geographic segmentation separates the market into geographically distinct units. A seller may appear in one or more geographic areas, or in all areas while, at the same time, attention is directed towards specific geographic needs or preferences. Examples of this are: the U.S. company Maxwell House which is owned by General Foods, sells coffee all across the country, but the coffee has a different taste in the different parts of the country, since Americans in the West drink stronger coffee than the people in the Eastern States (Kotler, op.cit.).

Psychographic segmentation differentiates between customers on the basis of their social class, life style and/or personality characteristics. This group of variables is often used in addition to demographic segmentation, since customers in the same demographic group often show different psychographic profiles.

Behavioural segmentation separates customers into groups on the basis of their knowledge of, attitude to, use of or

response to a product. It is widely believed that behavioural segmentation is the best starting point when dividing the market into various segments.

Central segments in the U.S. retail trade.
Traditionally, studies of segmentation of consumers in the retail trade have differentiated between non-working women and working women, and the focus has been on what impact **occupational status** has on buying behaviour. The conclusions have been that working women with education differ from working women without education, and further from housewives in terms of shopping behaviour (Joyce and Guiltinan, 1978). Working women plan their purchases to a greater degree than housewives. Housewives are more price conscious than working women, who in turn are more "experimental" in their shopping (Joyce and Guiltinan, op.cit.).

In recent years, however, the segmentation strategy of the retail trade has been aimed at target groups other than only women. More **men** shop at supermarkets than previously and a study of who does the shopping in U.S. supermarkets concludes that women are responsible for shopping in a total of 79% of the cases, in 11% both together do the shopping, and in 9% the shopping is done by men alone. In total, men participate in 20% of the shopping in grocery stores (Progressive Grocer, 1987).

Typical characteristics of the male customer are that he is under 35 years of age in 20% of the cases, is childless in 85% of the cases and in 67% of the cases has an annual income of up to US$ 30,000 (Donegan, 1986 a). In the U.S.A. there are about 20 million single men over the age of 18 and this group spends a considerable amount annually on the retail trade and on eating out. At present, the tendency of the U.S. supermarkets is to direct their attention to this target group. Safeway Stores, Inc. no longer advertise with the focus on women but use magazines of a more masculine character, such as, for instance "Sports Illustrated" to a greater degree than previously (Donegan, op.cit.).

Teenagers form another important customer segment. This group spends more than US$ 13 million on food annually, which constitutes more than 40% of the food budget of American families. Two out of three teenagers have working mothers and today female teenagers prepare an average of 12 meals per week (Swenson, 1987). A considerable proportion of U.S. women in the 20 - 34 age bracket do their shopping in the same stores they patronized as teenagers.

In 1984 there were about 50 million Americans 55 years of age or older and this group of **older consumers** constituted 21% of the population. In 1960 the corresponding figure was

32 million, or about 18% of the population (Donegan, 1986 b). This group of older consumers is expected to increase to 90 million, or about one-third of the population, by the year 2030. The reasons for more Americans reaching a greater age are, among other things, medical progress, better living standards and healthier diets. More and more seniors and a steadily lowering birth rate in the 70's and 80's, have resulted in the average age of the population increasing. Today, consumers over the age of 55 are responsible for about 30% of eat-at-home purchases and U.S. supermarkets have learned not to ignore the importance of focusing on this group. There is a broad assumption that older people have less disposable income than young working people. U.S. studies have, however, found that older consumers not only have more money but also more time for shopping. This has resulted in it now becoming increasingly more common to find benches and restrooms in U.S. supermarkets. Some supermarket chains, such as Publix Supermarkets, Inc. have their own courses to train staff in how to assist older customers and others (for example Super Shop'n Save) have their own bus routes for older shoppers (Donegan, op.cit.).

32.

Characteristic features of this group of older consumers are that they are less price oriented, buy high priced items

more often than other age groups, buy smaller packages, shop early in the day, shop often and are more service-oriented than other groups. Older consumers are nutrition-conscious and often buy products having low levels of cholesterol and saturated fats, such as fish, turkey and chicken. Products having low salt content, few calories and products containing calcium are often in demand by older customers. Older consumers often prefer to buy prepared dinners as well as frozen food (Donegan, op.cit.).

A segmentation of the market based on consumer life style may lead to a rapid sales increase and building up of an "image" in the long term. **"Baby Boomers"**, the group of Americans born in the years 1946 to 1964, constitute a large population group - about 77 million people. Those born between 1946 and 1954 are the best educated U.S. consumers. They have good incomes, know what they want and will buy it, almost regardless of price. Today, "Baby Boomers" control a large portion of U.S. industry, and by the end of this century it is expected that this group will represent about 40% of the total buying power in the U.S.A. (Stern, 1987). Today, the oldest "Baby Boomers" are in the upper 40´s and the youngest slightly over 20 years of age. By the year 2000, 30% of the population of the U.S.A. will be between 35

and 54 years of age and the average age will be around 40. The number of young people (18-24 year olds) will decrease and the US population will become older. This will have consequences for the retail trade which will have to target its marketing towards older consumers (Stern, op.cit.).

Another segment of growing significance in the U.S.A. is the **"Yuppie" segment** (young, urban, professionals) which constitutes a portion of the "Baby Boomers" segment. The "Yuppie" segment consists of young well-educated people (25-34 years of age) and living in large cities. They earn an average of US$ 30,000 annually and are large consumers of expensive specialities. "Yuppies" also have higher private consumption than the population average and have become a target group of U.S. retailers (Combs and Banks, 1987).

Consumers of Spanish descent ("Hispanics") constitute a significant segment of the U.S. retail trade. "Hispanics" represent a population of about 18 million and a typical family spends about US$ 105 per week in the supermarkets. An average non-Hispanic family in the U.S.A. spends about US$ 84 per week (Swenson, 1987). "Hispanics" must, however, be sub-segmented on the basis of variables other than race. About 90% of this population group are Catholics and their life style often involves strong family ties, preservation

of traditions and strict observance of "feast" days. Each of these characteristic features constitutes a platform for retailer involvement in Hispanic society.

Criteria for the selection of target markets.

The selection of target markets consists of selecting one or more market segments among those identified in the process of segmentation of the market. Those target markets, which are considered to be of interest to the retailers, must have certain characteristics and unsatisfied needs which the retailers feel they can help satisfy. Mason and Mayer (1987) have identified six different factors considered important in the selection of a target market:

33.

* Future growth potential.
* Size of present market.
* Investment needed to operate within a given target market.
* Strength of competition within the target market.
* Opportunities to meet the needs of the target group.
* Profit potential.

Positioning

Positioning can be defined as development of the company's products and marketing mix to gain entry or achieve status

in relation to a competitor in the market (Omsèn, 1985). A company about to position itself in the market must determine whether it should place its product next to that of a competitor or whether to aim for a segment not met (a "gap") in the market. If the product is placed next to that of the competitor, then the company must seek further differentiation by the use of strategy variables in the marketing mix (Kotler, 1984).

In order to achieve a position in a target market it is necessary that the retailer´s reasons for operating in a given market segment be clearly defined and made clear to the target groups in question. The reasons must also be clarified to the retailer´s managers and other personnel. Effective positioning contributes greatly to the success of the retailer (Mason and Mayer, 1987).

Positioning within a target market involves, as mentioned previously, the use of marketing mix variables. Mason and Mayer (op.cit.) refer to all six "P´s" which can be used as part of the marketing plan to compete in selected market segments; product, price, promotion, place, presentation and people. These can be used in varying combinations to differentiate the retailer from his competitors in the target market. In this portion of the report we will look at

the strategy elements product, price and promotion, in particular. These are the variables which the retailer can use/manipulate in his work and which the producers/distributors can help influence to their advantage by, for example, providing resources to cover expenses incurred in marketing. The remaining elements in the marketing mix - place, presentation and personnel - were dealt with in Chapter 2 ("Structural Features and Internal Resources of U.S. Retail Trade").

3.3. Product

Profile

The most fundamental marketing variable is the product, which stands out as a tangible "offering" to the consumers in the market. The market's impression of the product emerges as a result of the product's attributes, its packaging, brand name and the services offered at marketing and sale of the product (Kotler, 1984). Quality and fashion are important attributes in marketing a product. Most products lie at one of four level of quality; low, medium, high or superior.

Studies have found that the profitability of a product increases with increasing quality and a high quality permits

the company to demand a higher price for the product (Schoeffler et al, 1974). The costs of improving product quality from medium to high is not as high as the increasing income the company will derive from higher pricing of the product. An improvement from high to superior quality, however, involves large costs and does not produce the same return for the company (Schoeffler et al., op. cit.). Even if a customer has difficulty in determining the quality of a product, the product price and brand name may signal a quality profile to the customer (Hartley, 1984).

34.

The fashion of the product refers to a specific style which is commonly accepted. By giving the product a distinct style the company may differentiate its product from competing products on the market.

Brand strategy

When developing a market strategy for selected products, the seller must decide whether the products will be marketed under his own brand. The brand identity may add value to the product and is therefore a significant aspect in product strategy. At present, there are two large Norwegian fish companies in the fishing industry which sell brand names on the U.S. market (Norway Foods and Frionor).

The U.S.A. differentiates between national and private brands. National brands are owned by the manufacturer of the product and may be sold to all those whom the manufacturer supplies. Private brands are owned by a retailer and are sold only through that retailer. Kotler (1984) refers to several definitions which ought to be known in connection with the building up of brand identification of a product:

* **Brand** is a name, term, symbol, sign, or design or a combination of them, which is intended to identify the product or to differentiate that product from other products.

* **Brand name** is that part of the brand which can be vocalized - the utterable.

* **Brand mark** is that part of a brand which can be recognized but is not utterable (for example, a symbol, lettering or colouring).

* **Trademark** is a brand or part of a brand that gives the seller exclusive legal protection through a licence. A trademark protects the owner of the brand against others using the brand name or brand mark.

The first decision to be made is whether the products really will be marketed under a private brand. Most products have, over time, been sold as no-name, so-called generic, products. Generic products are cheap, non-brand products in simpler packaging and, in the U.S.A., it is often common to sell groceries such as spaghetti, canned fruit and paper towels as generic products (Kotler, op.cit.). These products are offered as standard products of relatively low quality, but at prices up to 30% lower than the price of established brand names.

The number of products sold under private brands has increased enormously in the U.S.A., and in recent years few no-name products have been sold on the retail market (Kotler, op.cit.). Brand identity provides the seller with advantages when he is marketing a product. For example, a brand product provides the seller with the legal right to prevent given product advantages from being imitated by the competiton. Brand identity also provides the seller with profit opportunities by acquiring a loyal consumer group, by segmenting the market more effectively, as well as being of service when the seller wants to establish a profile for the product in the market. A brand name on a product should have the following qualities: It should state something about the

product's advantages/attributes/qualities, be specific/ distinct and be easy to pronounce, easy to see and be easily recognizable.

Private brand marks constituted about 12-14% of the total sales of groceries in the U.S.A. in recent years. In 1982 private brand marks constituted 14.1% of sales, in 1982 (sic. Tr.) 14.4% and in 1985 12.1% (The Food Institute , 1986). Seafood products are mainly sold with no brand marks (62%). About 17% are sold under a store's or supermarket chain's own brand, 18% are sold under the brand mark of the distributor and 1% under other brands (Pollack and Hellevig, 1987).

35.

Retailers who pack and sell products under private brands have the advantage that they can purchase products from the distributor who provides the cheapest products. The cost of marketing, however, rests to a greater degree on the retailer than in the sale of national brands. The producer often shares the costs of marketing national brands.

Assortment

The product assortment of the retailers must match the expectations of the customers in the target market. This element of strategy is a key factor in the competition

between retailers having great mutual similarity. Retailers must quickly adapt the product assortment to the changes in demand and life style among their customers, and they must decide the width and depth of their assortment. An outlet which carries many product lines and which has various product departments has a great width in assortment. The depth of assortment here refers to the variations which the retailer can offer within each type of product, for instance, colour, style, size and price (Hartley, op.cit.).

With regard to the width and depth of assortment, there are two directions evident within the retail trade. On the one hand, there are outlets offering a limited number of types of products, such as, for example, groceries and drugstore items. There is a tendency, in these stores, to expand their product assortment and by that means provide greater width. On the other hand, we have the speciality stores which carry a limited number of product types, but which are attractive to customers because they can offer a good selection of individual product types (Hartley, op.cit.). These stores have great depth in their product assortment. The combination of great width and great depth in assortment can be found in the largest department stores. In 1986, a U.S. supermarket carried an average of 19,857 different items.

That is an increase of 13.7% over the previous year, when a supermarket carried 17,459 items, on the average (FMI, 1987 a). Every year new products are being introduced into the U.S. retail trade. Table 3.2 shows the number of new products introduced annually:

Product	1980	1981	1982	1983	1984	1985	1986
Dry foods	796	1006	994	1306	1561	1481	1315
Refrigerated products	98	134	328	391	296	351	335
Frozen products	228	249	258	298	228	289	345

Table 3.2: Overview of the number of new products introduced annually in U.S. retail trade.

(Source: N.N., 1987 a).

Great demands are placed on profit potentials for new products to retain their shelf space in the retail trade. The introduction of EDP in the retail trade has given retailers a better opportunity to control the assortment and profitability of individual products. Most of the new products are tested in two of the largest markets in the country - the New York area and the Los Angeles/San Diego

area. Other large markets for new products are Dallas/Fort Worth, San Fransisco, Boston/Providence, Chicago, Philadelphia, Albany/Schenectady/Troy, Detroit, and Minneapolis/St.Paul (The Food Institute, 1986).

When it concerns strictly seafood products, a U.S. study shows that the sale of seafood represents about 4.6% of total supermarket sales - which in 1986 was US$ 218 billion (Progressive Grocer, 1987; Pollack and Hellevig, 1987). Fresh seafood makes up 57% of seafood sales, frozen 30%, canned 5%, live 3%, smoked 5% and other 2% (seafood salads, prepared meals). An increase in sales has been recorded for products such as surimi, salmon, prepared dishes, fresh tuna and shark, seafood salads, cultivated catfish and Atlantic pollack. Pollack, which was previously regarded as a poor value fish, is now sold for good prices, almost in line with cod, haddock, flounder and even hake. The largest volumes of fish sold are fresh white-fish filets and shrimps (Pollack and Hellevig, op.cit.).

Seasonal supplementation of the products offered may be of importance to Norwegian exporters wishing to supply the U.S. retail market. Norwegian suppliers could base their efforts on delivering fresh products to retailers who carry fresh products for the remainder of the year with seasonal

variations in the products offered. U.S. Pacific salmon is mainly caught during June, July and August. A relatively small amount of this salmon is sold fresh during the season; most is sold canned or frozen. Cultivated salmon from Norway and other countries is supplied fresh all year round and thus meets the demand for fresh salmon the remainder of the year. There are, however, seasonal variations in the amount of fresh salmon offered from various countries at different times of the year. This, again, may result in the various distributor countries becoming, to a certain degree, supplementary suppliers on an annual basis.

3.4 Price

To a great degree the U.S. retail trade is still based on the principle that consumers are primarily motivated by product price (Progressive Grocer, 1987). Price setting by retailers is a key factor in the marketing mix. The price is the only element in the marketing mix which generates income; all other elements results in expenses to the seller. The product price reflects the quality of the products carried in the store, and the price also signals what services the customer can expect to receive. (Kotler, 1984). The costs of producing and promoting the sale of a product form the basis for pricing. Retailers can profit

more by careful shopping than by making smart purchases. When setting a retail price, Kotler (op.cit.) suggests six points to consider:

* Selection of pricing objective.
* Estimation of expected demand at various price levels.
* Estimate of costs.
* Analysis of competitor´s prices and offers.
* Selection of pricing method.
* Determination of final selling price.

When a retailer is determining the final selling price, consideration must be given to the psychological effect of the pricing (for instance, price as an indicator of quality), the retailer´s established pricing policy (discount store versus exclusive speciality store) and what effect pricing will have on other players in the distribution chain (how will competitors and distributors react to the retailer´s selling price).

Many retailers modify their basic prices to reward customers for special behaviour, for example, paying their bills on time and buying large quantities. Such price adjustments - sales or discounts - may be of different characters. Cash discounts, volume discounts and seasonal discounts are among

the most common forms of modifying a basic price. Price reductions may also be initiated by a drop in demand, falling market share and price competition in the market, or from a desire to become the leader in the market by selling large quantities at low prices.

In the U.S.A. a number of membership clubs have grown up, so-called "wholesale clubs", where paying members can do their shopping at prices well below normal retail prices. In 1986, the largest chain of such "wholesale clubs" was Price Club with its main office in San Diego. Examples of others are Sam´s Wholesale Club (Arkansas), PACE Membership Warehouse (Colorado), BJ´s Wholesale Club (Massachusetts) and Warehouse Club (Illinois). Large companies in the retail business have also become involved in this form of trade, and have incorporated bargain stores into the mother companies as "wholesale clubs". Examples of such companies are Kroger (Price Savers), Walmart (Sam´s Wholesale Club) and Zayre (Metro Cash & Carry) (O´Neill, 1986).

37.

When looking at price development in the U.S. retail trade as a whole, it becomes evident that the consumer index for food rose by 3.2% from 1985 to 1986. Fish and seafood products showed the highest price development of all food items - a price increase of 9.2% for the same period.

Corresponding price development for meat and poultry was 3.2% and 7.5%, respectively (Progressive Grocer, 1987). The price development for fish, meat and poultry, over time, is as follows: (see Table 3.3):

PRODUCTS:	PRICE INCREASES FROM PREVIOUS YEAR			
	1982/83	1983/84	1984/85	1985/86
All food products	+2.1%	+3.8%	2.3%	+3.2%
Fish	+1.2%	+3.2%	+4.9%	+9.2%
Meat	-1.1%	+0.3%	-1.0%	+3.2%
Poultry	+1.2%	+10.6%	-1.0%	+7.5%

Table 3.3: Price increase for fish, meat and poultry, over time, in U.S. retail trade.

(Source: The Food Institute, 1986; Progressive Grocer, 1987).

3.5 Promotion.

Promotion can, according to Kotler (1984), be defined as the various actions taken by sellers to make product advantages known to shoppers in the target market and to convince them to purchase the product. The promotion mix consists of four main elements: advertising, sales promotion, publicity and personal selling (Kotler, op.cit., 1984; Mason and Mayer, 1987).

Advertising includes any form of non-personal presentation and promotion paid for by an identifiable seller. Examples of advertising are newspaper and magazine advertising, catalogues, circulars and signs, as well as commercials on radio and television.

Sales promotion covers a wide range of short-term incentives (for example, coupons, prizes, bonuses, competitions, sales fairs, etc..) which are effected to create a more rapid or stronger market reaction.

Publicity is the non-personal stimulation of demand for a product by planting news of commercial value (about the product or the company) in a published medium. Normal forms of publicity are presentation of the company or the company's products through articles in newspapers, at seminars or in radio or television programmes. Publicity is normally free of cost to the sponsor.

The last form of promotion mentioned is **personal selling**, where the product is presented to the buyer in a personal manner. Examples of personal sales are product demonstrations, sales meetings and negotiations of purchase and sale. Personal sales are, according to Kotler (op.cit.) the most effective way of making advantageous product properties

known to potential buyers. When compared to advertising, personal selling has three obvious advantages:

* Personal selling involves an alive and interactive relationship between two or more persons. Each party is able to observe and decide at close hand the characteristics and needs of the other and make immediate adjustments.

* Personal selling permits all kinds of relationships to spring up between seller and buyer, ranging from a formal seller/buyer relationship to an informal friendly relationship.

* Personal selling places the buyer under some form of obligation to listen to the seller's message, forcing the buyer to show some response - even if the response is only a polite "thank you".

38.

Sales promotion in the supermarket industry has experienced formidable growth in recent years and today it appears to be growing even faster than advertising. A U.S. study shows that 76% of the supermarkets use recipe cards in their promotion, 65% use circulars, 56% use signs, 62% demonstrate products in the stores, and 59% make use of taste sampling.

Promotion in connection with special occasions is also extensive and, in particular, Lent (in February) and the "Fish & Seafood Month" in October (sponsored by the National Fisheries Institute), are noted in the supermarkets (Pollack and Hellevig, 1987). "Memorial Day", Mother´s Day", "Thanksgiving Day", "4th of July", and so on, are other events marked in the retail business.

Advertising in newspapers, on radio and television, as well as advertising in stores, coupons and flyers, are common forms of advertising. Advertising is expensive and, for example, it can be mentioned that advertising in some of the largest newspapers in the U.S.A. costs approximately as stated below (Udenrigsministeriets Handelsafdeling, 1987) (Danish Department of Foreign Affairs, Trade Section):

1. New York Times : Circulation of approx. 1 million on weekdays and 1.5 million on Sundays. Price for one page: US$ 34,359 for weekdays.

2. Wall Street Journal : Circulation approx. 2 million. Price per page: US$ 33,886 for weekdays.

3. Los Angeles Times : Circulation approx. 1 million on weekdays, somewhat more on Sundays. Price per page: US$ 29,954 for weekdays.

4. Boston Globe : Circulation approx. 500,000 on weekdays and about 800,000 on Sundays. Price per page: US$ 20,160 on weekdays.

5. Washington Post : Circulation approx. 750,000 on weekdays and about 1 million on Sundays. Price per page: US$ 30,360 on weekdays.

In 1986, 51% of the total advertising budget in the U.S. retail trade was spent on advertising in newspapers, 38% on flyers, 6% on radio, 4% on television and 1% on outdoor advertising (Progressive Grocer, 1987). The development of sales promotion programmes requires a retailer to define the objective of the sale promotion, select the tools to promote sales, develop, pre-test and implement promotional programmes, as well as evaluate the results of the promotion. Some individuals employ the public quality stamp for fish, "USDC Grade A", in advertising (for example, Grand Union and Ralph´s Grocery Company). Grand Union has used "Grade A" in their logo in TV commercials. Ralph´s Grocery Company in California advertised using the following headline: "Ralph´s seafood is now inspected by the US Department of Commerce" and subsequently registered a 10% increase in sales of seafood. The retailers particularly emphasize quality,

service, low prices, new products and better presentation, as well as health and dietary aspects in their promotions.

Creativity and imagination are important elements in the competitive retail trade and it is important to let the customers experience something special/exciting when shopping at a given retailer. All retailers depend on satisfied customers and, furthermore, that they become repeat customers.

A so-called "co-operative" promotion within the U.S. retail trade has been noted. Coperative promotion means that the costs of promotion are divided between the retailer and the distributor (horizontal cooperative efforts), or between several retailers (vertical cooperative efforts)*. Costs of promotion constitute about 24% of the total promotional costs within the U.S. retail trade (Mason and Mayer, 1987).

Services

Service to customers (services, attention, politeness, helpfulness, and so on) can also promote sales. Factors such as the store itself, its decor, its amenities, such as carpets on the floors, background music, long hours of

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* Author appears to have reversed definitions. See Mason & Mayer, 1984, pp.610-12. Tr.

opening, air conditioning and rest rooms, as well as parking, are all included as parts of the store's service package. The presence of sales personnel in the store instead of self service, is a significant service point for a retailer. This is particularly important in the sale of seafood products in order to educate consumers about the preparation of fish. Service at fish counters can also inform the customers about the important nutritional value of seafood.

In addition, there are such traditional service factors as customer credit, carry-out of groceries, gift wrapping, children's play area and baby sitting for customers while they shop. Examples of services offered by retailers to their customers are Publix and Winn Dixie (Florida) who consider long opening hours an important service to their customers; Wal-Mart, who, among others, provides ample parking, quick customer service and nice displays of products; Price Chopper has, in addition to 24-hour-a-day opening, full banking service and a café in its outlets (the New York unit); Safeway Stores have, among other things, sponsored local interest groups in the immediate neighbourhood and are also sponsors of the training programme "Young Austronaut" under the auspices of the White House Young Austronaut

Council. This programme was developed to encourage students to further their education in mathematics, natural sciences and high technology (Schaeffer, 1985).

There are many opportunities to provide service to customers and thereby make the outlets more attractive. Most of the service factors involve costs to the outlets, but it is widely believed that this service is of great importance in attracting customers. There are, however, limits to how much costly service an individual store can offer. Carry-out of groceries is a quite expensive service factor and this service may therefore considerably reduce any returns. This fact explains why there is often a correlation between high prices and degree of customer services in a store (Hartley, 1984).

3.6. Purchasing strategy

Choice of distributor.

The choice of distributor is an important factor in a retailer's purchasing strategy. Good relationships with distributors could ensure a retailer the desired product assortment at all times. In the U.S. retail trade, wholesalers, manufacturers and cooperatives are the most common sources of supply to outlets at the retail level (Mason and Mayer, 1987). The largest retail chains often buy directly from

manufacturers and in this manner the purchases are less costly than purchases through middlemen. It appears that there is now an increasing tendency for supermarkets also to make their purchases directly from the manufacturers, by-passing the wholesalers (Mason and Mayer, op.cit.). This tendency appears to be more prevalent as supermarkets have grown in size and sales have increased.

The choice of distributors is a complex process even after the retailer has decided on whether to purchase products directly from the manufacturer, from a wholesaler or from a cooperative. The retailer should have an overview of the number of retailers dealing with the chosen distributor, what type of assistance (service, training, etc.) the distributor provides, how much promotion and sales promoting activity the distributor is willing to support and, finally, under what conditions the relationship to the distributor in question may cease.

According to Mason and Mayer (op.cit.), little research has been done to determine the criteria utilized by buyers at the retail level in selecting distributors. A U.S. study (Hirschman and Mazursky, 1982), however, concludes that the criteria most frequently used in the choice of distributors were as follows:

* Reputation of distributor.
* Expected margins.
* Reliability and time/speed of delivery.
* Reputation of product.
* Estimated demand for the product offered by distributor.

40.

The same study points out that the most common sources of information used by retailers when selecting a distributor is a personal assessment of the distributor, information from trade magazines, historical and expected sales, information from the distributor and recommendations from regional purchasing offices (applies to traditional "department stores" only).

The relationship between retailer and distributor.
Stable and reliable relations between distributor and retailer are important for both parties. Experience has shown that in periods of low sales and lower income than normal the retailer may gain by previously having built up a good relationshop with the distributor (Mason and Mayer, op.cit.). Even under normal conditions, good distributor relationship may be profitable. Suppliers often offer particularly attractive items, shipments of products and special deals which may result in lower prices to the retailers with whom they have the strongest connections.

Retailers who attempt to pressure distributors to obtain special preferences and conditions do not have these opportunities.

Suppliers may force retailers to carry less attractive product lines in order to be allowed to carry the more attractive lines. Suppliers may also influence the selling price at the retail level by ordering the retailers not to sell the distributor's products any cheaper than an agreed minimum price (vertical price setting). This practice is prohibited in the U.S.A. in accordance with The Sherman Antitrust Act of 1890 and The Federal Trade Commission Act of 1914. Both acts regulate market competition. Several large companies in the U.S. food industry have been charged with breach of regulations concerning cartels and interference in free market competition. Jerrico, Inc., which has its main office in Kentucky and which owns the restaurant chain Long John Silver's, has been charged with attempting to limit competition within the trade of, among other things, cod and shrimp. This breach of the anti-trust legislation was caused by the company trying to monopolize the purchases of fish for the restaurant chain (N.N., 1983). National retail chains, for their part, may dictate the price they want to pay for supplies from a factory/distributor. However, only

the largest chains with very large sales can influence the price demanded by known brand manufacturers. Concessions to the retail level with regard to price have the best chances when:

* few large retailers purchase products from a large number of small manufacturers;
* the distributors are smaller than the purchasers;
* the retailer purchases a large share of the distributor's output;
* the retailer has a large market share, and
* the retailer has the opportunity to buy into the distribution sector.

With regard to demands by U.S. retailers on their distributors, this will be dealt with in a separate study which will be based on the collection of primary data at the retail level.

Purchasing planning and inventory.

Retailers must decide the types of products they will deal in after having analyzed the sources of supply and distributors of the various types of products. Among the most important criteria for the selection of types of products are the estimated demand for the products, expected

margins, product reputation, esthetic qualities of the product, as well as reliability and speed of delivery of the product types in question (Mason and Mayer, op.cit.).

When the purchaser has decided the types of products he will sell, the decision as to the size of purchases must be made. Strategic planning of size and inventory must at all times be considered in relation to the retailer's total marketing strategy. Typical examples of models for product purchases and inventory are:

1. The Order Point Model: New purchases are made when the inventory and outstanding orders correspond to the expected demand for the next planning period (replenishment). The timing of replenishment orders is a function of estimated demand, delivery time and the need for and level of inventory.

2. The Economic Order Quantity Model: This model is most applicable when future demand is known, continuous and constant. The model explicitly reflects the variable costs related to ordering of products and inventory.

3. The Order-Up-To Models: Various purchasing models which, among other things, have as an objective the

maintainence of a pre-determined level of inventory, a fixed purchasing amount or fixed periods for purchasing.

Purchasing planning and inventory may, in certain cases, cause some problems with, for instance, the sale of so-called "seasonal goods". Such products must be treated as fixed/stable products in the season when there is normally a demand for them, and the outlet must always hold a certain inventory of these products during the season. The retailer must be careful not to give these products too stable a characteristic in inventory planning, as he may risk being burnt with too much in stock outside the season. Purchasing planning can also be very problematic with regard to fresh fish products. The retailer bases his planning and purchasing habits on expected demand for fresh fish at given periods of the year - miscalculating demand and thereby purchasing too large amounts will result in losses to the retailer. It is therefore assumed that he will be careful not to purchase larger amounts than he is sure to sell. Purchases of frozen fish and canned fish products, in particular, are not as risky as purchases of fresh fish. These products can stand storage and the retailer is not dependent on selling the products within a few days.

3.7. Summary.

In this chapter we have looked at strategy in the U.S. retail trade. The purpose has been to obtain an overview of the various market segments of interest to the retail business, and to obtain an overview of what market strategies and what strategy elements U.S. supermarkets make use of in the sale of retail products. Briefly, it appears that retailers, to a great extent, direct their offers towards special groups of consumers, and employ various combinations of the strategy elements price, product, promotion and place (marketing mix) to reach the groups of shoppers of interest. The marketing strategy of the retail trade has become more complex and multi-faceted than previously, when the stategy mainly could be called mass marketing (see Kotler, 1984).

Increased competition at the retail level has caused many retailers to continuously look for new and original methods of making people aware of their company and thereby increasing sales of their products.

4. Developmental Features of Seafood Consumption.

The time appears to be ripe for marketing and sale of fish

and fish products in the U.S.A.. Seafood now appears to be "matching" consumers' desires for products of high quality, convenient products and all-round products which satisfy the need for changes and variety in the diet. Supplies of fish and fish products have improved and suppliers can now offer a wide selection of types and products to customers. The retail trade is characterized by increasing competition which has contributed to a great degree of market orientation and innovation to meet the challenges in the present U.S. foodstuff industry.

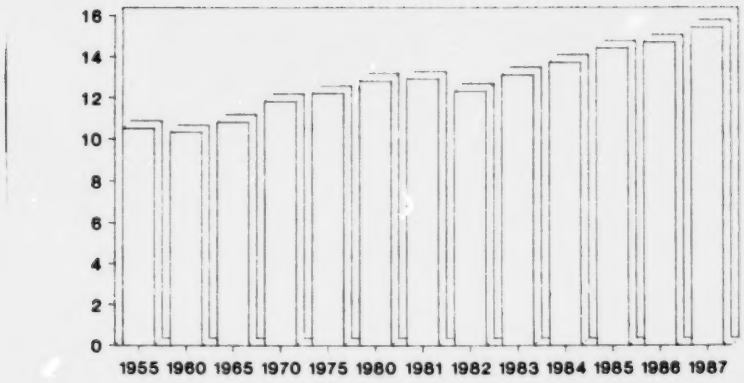
4.1. Per capita consumption of seafood.

The per capita consumption of seafood in the U.S.A. remained relatively stable at about 12-13 pounds per year during the 70's and the beginning of the 80's. In 1985 the annual per capita consumption exceeded 14 pounds a year, a temporary record in seafood consumption, and consumption has continued to increase since. Figure 4.1. shows the development in consumption of seafood in the U.S.A. over time. (See next page.Tr.)

PER CAPITA CONSUMPTION OF FISH IN THE U.S.A.

1955 - 1987

POUNDS PER CAPITA



YEAR

Figure 4.1: Annual per capita consumption of seafood in the U.S.A. over time.

(Source: US Department of Commerce, 1987).

CONSUMPTION OF VARIOUS FISH PRODUCTS IN THE U.S.A.

1955-1986

POUNDS PER CAPITA

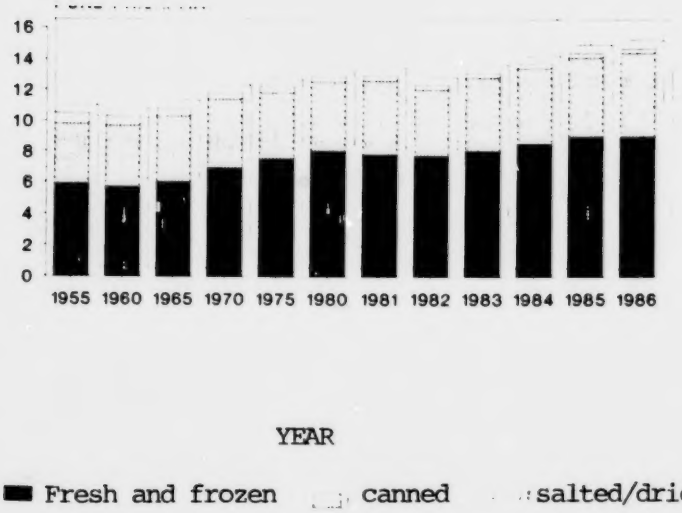


Figure 4.2: Fish consumption distributed by product type.

(Source: US Department of Commerce, 1987)

4.2. Consumption of different types of products.

When looking at the types of products which account for fish consumption, it is evident that fresh and frozen products are at the top of the list. A relatively large

amount of canned fish products is consumed in the U.S.A., while the consumption of salted products is very low (see Figure 4.2 on the previous page).

43.

There are many reasons for the recorded increase in consumption of seafood products in the U.S.A.. Previous problems of continuity of supply of seafood products, maintainance of good quality, inland distribution problems and lack of new fish-based products are far from overcome. Expansion of the aquaculture industry has contributed to improving the availability of seafood products.

Parallel with the increase in consumption of seafood, consumption of red meat has shown a declining tendency. The per capita consumption of poultry, however, has increased and it has absorbed the decrease of red meat on the protein market.

A shift in the country's demographic and social (sociographical, sociological) conditions, changes in lifestyle and value systems (as well as increased emphasis on health and proper diet - physical well-being - vitality - looks), also indicate increased consumption of seafood in the future.

5. Forces Behind Changes in Eating Habits and Shopping Patterns/Behaviour.

Changes in eating habits as a result of forces and trends in the market influence sales in the retail business. Any changes in demographic and social conditions, changes in household structure, life style, attitudes, knowledge and preferences are forces which may influence the changes in eating habits and shopping patterns.

5.1. Changes in demographic conditions.

5.1.1. Age composition.

The U.S. population is showing signs of changing. The average age of the population is increasing, and it is expected to reach 36 years by the year 2000. This corresponds to an increase of 8 years in the average age since 1970 when it was 28 years (McKnight et al., 1985). By the year 2000, it is expected that people in the 35 to 54 age group will account for more than 30% of the population. This corresponds to an increase of slightly less than 9% from 1980. The group of elderly citizens over 65 years of age is expected to correspond to about 13% of the population by the year 2000; an increase of more than 37% over the 20-year period from 1980 (McKnight et al, op.cit.).

The change in the population structure caused by the aging of the population has resulted in the elderly becoming a steadily larger and more important target group for retailers. Seniors often have great purchasing power and special needs, such as for example, diet and convenience. They are also less price-conscious and more quality-conscious than the young. New needs arise as the U.S. population gets older. This, in turn, influences the future potential for consumption of fish and fish products through the U.S. retail trade.

5.1.2. Education, occupation and income.

The level of education of Americans is increasing, their standard of living is increasing and the average income per household is also rising. Households having annual incomes exceeding US$ 50,000 is the fastest growing income segment in the U.S.A. and the number of households in this group is expected to double in the next decade (McKnight et al, op.cit.). These factors may affect changes in eating habits and shopping behaviour. Given the fact that seafood consumption in the U.S.A. is closely related to, among other things, income, there ought to be ample opportunity for increased sales of

seafood products. People with high incomes appear to spend considerable amounts of money on seafood both for use at home and for consumption in restaurants.

44.

Households having two incomes account for more than 70% of all families and they represent more than two-thirds of the total purchasing power of U.S. families (Zeithaml, 1985). More and more women are becoming part of the work force. This will have an impact on sales of fish and fish products since working women often purchase food which satisfies the desire for simple preparation. This is confirmed by the large sales increases recorded for frozen prepared meals. It also appears that there is a tendency for working women to eat out more often than non-working women (McKnight et al., 1985 a) and they are less price-conscious than women who remain at home (Joyce and Guiltinan, 1978).

5.2. Changes in social conditions.

Americans marry later than previously and have significantly fewer children than before. Single-person households account for an increasingly larger part of the population, which, again, results in more and smaller households than previously. It is anticipated that the proportion of family households will decrease from 81% of the total number of households in

1970 (63.4 million) to 64% of the expected total number of households in 1990 (95.1 million) (Glick, 1984). Studies have shown that seafood consumption depends on household size; households with one or few members eat more seafood than households with many members (McKnight et al., op.cit.). This would indicate that there are ample opportunities to increase sales of seafood products through the retail trade and the restaurant market. Changes in family structure will also have an impact on eating habits. Olsen (1987) shows the following consequences of changes in household structure:

* Fragmented family conditions.
* Family meals are disappearing.
* Fixed and regular meals are dying out and all eat at different times.
* Children must be able to master the microwave oven alone.
* Requirement for flexibility and convenience.
* Many eat out or buy prepared meals.
* Increased demand for new products.
* Shift in demands.

Changes in social environment influence consumer decisions when shopping. Many retailers have recognized this fact and have taken it into consideration, and talk about attitude

changes to the same degree as shifts in the economic environment. Retailers consider attitudes, among other things, to be a key factor in the formulation of strategy, often without considering economic conditions (Mason and Mayer, 1987).

5.3. Changes in lifestyle and value systems.

Lifestyle can no longer be predicted based on income, social class, place of residence and type of work (employment status). Lifestyle is shown to be based on interests, activities and personal needs and desires (Primo and Green, 1988). Changes in demographic and social conditions, however, influence consumers' lifestyle and their value systems. Complexity and diversity in a population actualize the need for **flexibility** and **variety** in the products offered and the industry is developing products and product variants suited to situations/mood and which satisfy consumer demands for variety. Ethnic foods are popular in the U.S.A. and consumers are, to a greater degree than before, more willing to try new dishes and experiment with food.

The development tends towards greater **"self-orientation"** among consumers with emphasis on physical well-being, looks and vitality (Olsen, op.cit.). This is confirmed by, for

instance, books such as "Total Fitness", "The Save Your Life Diet" and "Overcoming Stress" being on the best seller lists in the U.S.A. (Mason, Mayer and Ezell, 1988). In 1983, 83 million Americans, or 38% of the population did physical exercises. It is estimated that 19% of the adult population in the U.S.A. is on diets, of these, 52% are dieting due to overweight (McKnight et al., 1985 b). The foodstuff industry is responding by developing and marketing **proper nutritional products** with low caloric content and the best possible composition of protein, vitamins, minerals and cholesterol.

45.

A study which looks at values and lifestyles among U.S. consumers points out that consumers can be separated into three different groups: needs driven, outer directed and inner directed (Mitchell and MacNully, 1981). Each of the three groups differs from the other in demography, values, how they carry out their purchases and growth rate.

* The **needs driven** group is characterized by limited education and limited access to money, and consists mainly of older people living in the inner city areas. Their value norms are based on meeting the fundamental needs (security and survival), and the group's shopping pattern is characterized by purchases of staple and functional products.

* The **outer directed** group consists of consumers of all ages with medium to very good education and incomes. Their value system is based on achievement and rivalry, and contains, among other things, elements of tradition, materialism, status, competition, efficiency, comfort and ambition. Their shopping patterns are characterized by purchases of goods for home and family, impulse buying, luxury products, highly visible products and products which are in style, depending on the consumer's income and values. This consumer group often buys status-type brand products, and it can be mentioned that some producers of such products (Gucci, Cartier, Yves St. Laurent, and others) have increased their sales in the U.S. market enormously (Mason, Mayer and Ezell, 1988).

* The **inner directed** group includes experimental consumers, socially involved consumers, consumers with more influence, consumers who are "self-oriented" as well as "integrated" consumers (who feel they are well fitted into the society). The group includes students, well-educated people, many unmarried or young families and consumers in all age and income groups. Their value systems include elements of individualism, impulsivity, drama, the artistic, the experimental, social responsibility, environmental

concern, global awareness, tolerance, psychic maturity, inner self confidence, etc.. When they shop the deciding factor is whether the products satisfy the requirements for new experiences, meet special needs, are esthetically oriented or ecologically correct (Mitchell and MacNully, op.cit.).

The signifiance of needs-driven and outer directed consumers is decreasing in the U.S. retail trade. The groups given the most attention today are the steadily growing groups of consumers who are inner directed and outer directed consumers who have adopted internally directed values (Mason and Mayer, 1987). These consumers are quality-conscious and expect to get value for their money in the form of quality products. Naturally-based products are preferred to analogous products and it is important that facts about the product, with particular emphasis on its ingredients, be clearly marked. Consumers belonging to this group rarely respond to the type of advertising directed towards the masses. They are rarely motivated by traditional incentives such as money, power, ambition or success, and they demand, to a greater degree, brand products and specialty products (Mason and Mayer, op.cit.). The value systems of present-day consumers are different from the systems prevalent among consumers in the 70's. This has had consequences for companies in the U.S.

foodstuff industry, which have several times felt the effects of local groups of consumers being more effective tools for changing the existing order than groups with national support ("the masses") (an example of this is that the animal protection group in Massachusetts forced McDonald's and Burger King to stop importing fish from Canada as a protest against that country's seal hunt).

5.4. Changes in attitudes, preferences and behaviour.

5.4.1. Changes in attitudes and preferences.

Attitudes towards an object (a product, an outlet, sales pesonnel, advertising, etc.) are a result of personal experience, lifestyle and those factors which are part of determining the lifestyle. The attitude concept consists of cognitive (knowledge), affective (feelings) and behavioural components which are in agreement with each other (Hawkins et al., 1986).

46.

Studies have found that consumer awareness of, attitudes to and behaviour related to consumption of seafood are strongly influenced by childhood, ethnic and religious background and where they grew up (FMI, 1981). The same study, furthermore, found that consumers have a stronger preference for fresh seafood than frozen seafood. The latter is often believed to

be products of poor quality. A large number of male and female consumers believe that seafood products are perishable and spoil fastest of all foods and that they therefore must be consumed the same day they are bought. Consumers also have little familiarity with and are less capable of selecting and preparing seafood, than is the case for other foods.

Seafood is seen as expensive food and in many cases consumers are not satisfied with the availability and presentation of seafood in the supermarkets. However, the dominant image of fish and fish products among U.S. consumers is positive. The consumers who participated in the study expressed great interest in seafood and accorded the products many excellent properties, attributes and qualities (FMI, 1981).

Attitudes towards nutrition and health have changed in the last five years. A study carried out by FMI (1987) found that the percentage of consumers who were concerned about nutrition has decreased. At the same time, specific nutrition-related questions (e.g. content of cholesterol, salt, vitamins/minerals, sugar, fat, chemical additives, the use of antibiotics, etc..) have been given greater attention.

Fish is included here as a raw material with a significant

content of nutrients necessary for humans and a low content of substances to be avoided. It can, for example, be mentioned that seafood contains all the amino acids essential to humans. Seafood also contains poly-unsaturated fat (omega-3 fatty acids) which reduces the cholesterol content in the blood, and it is rich in vitamin B and certain minerals. The content of cholesterol in fish is, in most cases, low (with the exception of roe products, certain types of shell-fish and squid). Seafood is easily digestible, easy to prepare and well suited as a diet food in many cases. The products are therefor able to satisfy consumer demands for a nutritionally correct diet, which should create a large sales potential in the future.

5.4.2. Changes in shopping patterns and eating habits.

The most noticeable changes in consumer shopping patterns in recent years are:

* Customers use less time shopping than previously, and time consumption has been reduced by 25% over 5 years (customers buy pre-packaged food instead of asking for special cuts and shop at times when there are small line-ups in the stores, buy larger amounts, select particular supermarkets which have quick check-out systems).

* There is a tendency for more shopping than previously to be unplanned impulse buying.

* In most cases women still do the shopping, while there is an increasing tendency for the whole family to participate.

* Greater emphasis is placed on "eye-appeal", cleanliness and hygiene than before.

The number of consumer visits to the supermarket per week has increased from 2 per week in 1986 to 2.4 per week in 1987 and is now at about the same level as for the years 1982-85 (FMI, 1987). In the course of the last three to five years about two-thirds of consumers have changed the way they prepare food. The most specific changes in food preparation involve less frying, less use of fat in preparation and more use of microwave ovens when preparing food (FMI, 1987). In 1987 the U.S. consumption of microwave-able foods was about US$ 760 million, corresponding to an increase of about 64% over the previous year (N.N., 1988). Men, particularly, have increased the use of the microwave oven when preparating food, while women have, to a greater degree than men, reduced the use of fat in food preparation (FMI, op.cit.). Ethnic foods and more experimental food

47.

UNEDITED TRANSLATION
For information only
TRADUCTION NON REVUE
Information seulement

preparation have shown a steadily increasing popularity among U.S. consumers. This has influenced and left its imprint on present-day American eating habits.

5.5. Summary.

It has been found that changes in demography, social conditions and lifestyle lead to changes in attitudes, preferences and behaviour among consumers. The retail trade has answered by changing market strategies and structural features to exploit the opportunities inherent in changed shopping conditions and new needs in the market. Olsen (1987) has sketched out the relationship between shifts in demographic conditions, social conditions, lifestyle/value systems, consumer´s attitudes, preferences and behaviour and changes in the industry´s adaptation to changed shopping conditions (See Figure 5.1).

Research has found that there exists great potential in the U.S.A. to increase the consumption of seafood which is prepared at home (FMI, 1981). The supermarket segment therefore has an opportunity to become a more attractive outlet for seafood and thereby make purchases of seafood a more regular part of the consumer´s shopping pattern. However, efforts are required from the retailers in, for

instance, educating consumers by means of informative material and discussions with customers about the value of and advantages related to the use of seafood. It is important to get the customers comfortable with seafood and, therefore, circulars, posters, and other informational material should tell customers about the broad range of species of fish available and what to look for when buying seafood. It is

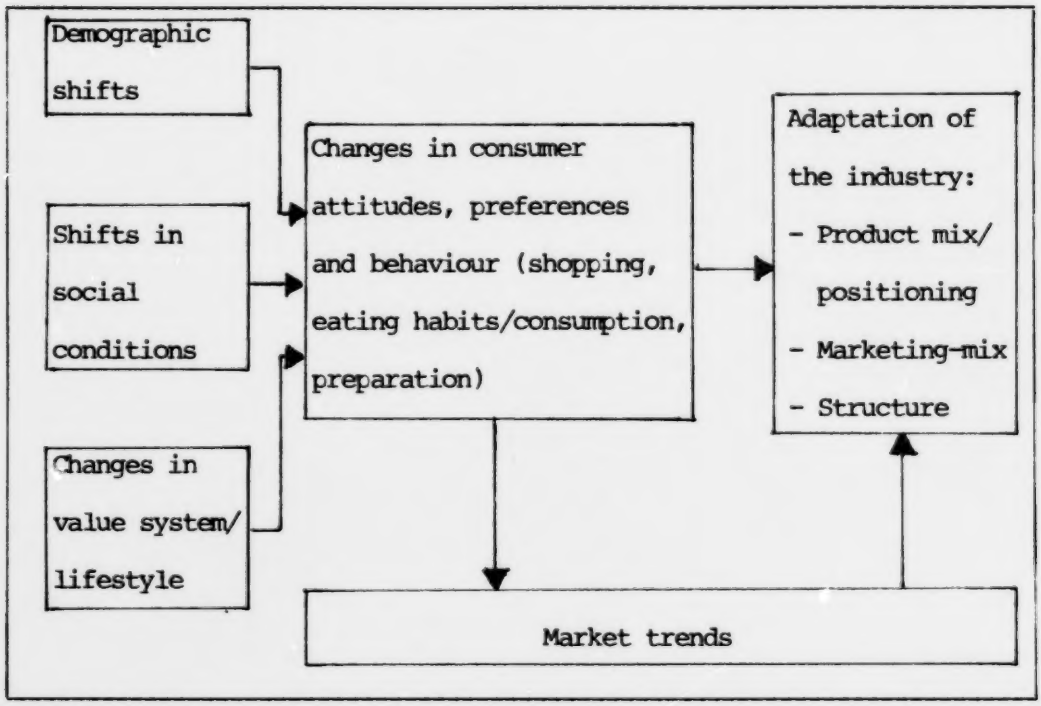

Demographic shifts
Shifts in social conditions
Changes in value system/ lifestyle
Changes in consumer attitudes, preferences and behaviour (shopping, eating habits/consumption, preparation)
Adaptation of the industry:
- Product mix/ positioning
- Marketing-mix
- Structure
Market trends

Figure 5.1 : Relationship between changes in shopping conditions and the industry's (here: the retail trade) adaptation and structural features.

(Source: Olsen, op.cit).

also important to educate customers in various techniques of refrigerating, freezing and thawing seafood, as well as methods of preparing it.

6. Changes in Strategy and Structure in the Retail Trade.

To satisfy consumer needs and preferences as a result of trends and shifts in the above mentioned market conditions, the fisheries industry has responded with, among other things, product development and modification of the strategy elements in the marketing mix. In this chapter we will discuss changes in strategy and structural changes in the retail trade resulting from shifts and trends in the market for seafood. In its attempts to adapt to shifts in demography, attitudes, preferences and behaviour, the retail trade has made a large number of controversial changes in goods and facilities to sell these goods and to adapt to a changed competitive situation.

6.1. Changes in product mix/positioning.

6.1.1. New products, expansion of sales area and excess capacity.

A large number of new products is introduced into the U.S. retail trade every year. This is, among other things, due to a marked increase in the number of brand products as the

most important strategy to compensate for decreasing opportunities for product differentiation (for instance as a result of increased dissemination of market information between players at various levels of the distribution chain). The introduction of new brand products is also due to the desire of producers to contribute to a growth in sales in a market which is in the process of being saturated (Aschenbaum and Mitchell, 1987).

Producers of edible products fight for space for their products on store shelves. In many cases this has induced producers to offer retailers products at special prices. More than 60% of sales in supermarkets are at **below list price**. In this connection, it can be mentioned that 90% of all alcohol-free drinks are sold at reduced prices.

The fight for shelf space has led some retailers to consider the number of metres of shelf-space they have as a commodity that can be sold to the highest bidder. The rental of shelves by the metre is also included in the number of demands which face the supplier/producer trying to gain entry into the stores. These demands have, in many cases, contributed to consolidation at the producer level, through mergers and acquisitions at the retail level (Aschenbaum and Mitchell, op.cit.). (See also section 6.3).

The supermarket segment is marked by **market saturation** and **excess inventory**. This segment changes format constantly and increases in size, trending towards store types with greater sales space and more product types than before. The development towards larger units enables retailers to achieve the advantages of large-scale operations in the management of their stores. These advantages can be realized in the technical, financial and political spheres (Reve and Stavseng, 1984) through, for example, performance bonuses, specialization of labour, distribution of fixed expenses over as many units as possible, increased sales, favourable purchasing agreements when buying large consignments of merchandise and negotiating power when confronting suppliers/producers, backers and insurance companies, etc.. Large outlets also have the space to carry more products than small stores and consequently can offer their customers a greater variety in the product range.

At present there are large amounts of excess space in the U.S. retail business. In some parts of the country there is still growth/expansion in sales space, even though there is sufficient space available in the retail business for almost any future population size. Areas with large excess capacity can be found in the "sunbelt" and particularly in the

Southeast. The East and West Coasts are in balance regarding existing sales space. Michigan, Illinois, parts of Massachusetts and New Jersey, have possibilities for expanding existing sales space (Primo and Green, 1988). Over-capacity in the retail trade may lead to lower profitability and the next thing will be rationalization of unprofitable units. It may be that there will be more acquisitions and mergers, and this will result in a concentration in the retail trade (this will be further discussed in sections 6.3.2 and 6.3.3.).

49.

6.2. Changes in marketing mix

6.2.1. Push marketing versus pull marketing .

Pull marketing (that is, working the public through advertising (Aschenbaum and Mitchell, 1987)), blossomed in the period after the Second World War. Pull marketing is where producers build up and maintain a certain market share through advertising, point-of-purchase material and packaging and in this way motivate customers to buy goods through an often passive distribution tool (for instance, in self-service).

The progress of **television** has made it possible to reach the masses in a rapid, inexpensive and effective manner. **Mass advertising** (mass marketing) and **product differentiation**

were the primary marketing implements/tools in the years after the war (Johnson, 1988). Large marketing giants such as Procter & Gamble and Kraft have controlled their own destiny through pull marketing and have built ties to the consumers and developed brand loyalty through advertising and packaging.

Shift from pull marketing towards push marketing.
Today the tendency is in the direction away from pull marketing and towards **push marketing**. Push marketing can be defined as "working the public through coupons and other incentives" (Aschenbaum and Mitchell, 1987). Levy, et al. (1983) take the concept to mean "channeled support programmes/activities in marketing".

The fact that the tendency leans towards push marketing undermines many producers of brand products. This is because there are repeatedly greater demands for participation in the retailer's marketing activities through sponsorship of various promotional activities and advertising budgets. There is intense price competition in the trade in edible products, and the producers of packaged brand products have noticed a reduction in their margins. Retailers have become better at setting up **merchandising agreements** with the producers/distributors for large purchases at special

prices. This, too, contributes to reducing producer margins and, thus, their resources for mass advertising (or pull marketing) (Aschenbaum and Mitchell, op.cit.).

The agreement between Foley M.F.Co.,Inc. in Boston (fish producer) and retailers (such as Roche Bros. Supermarkets in the Boston area) on a 50/50 basis is an example of a merchandising agreement between producer and retailer. Foley's task is to procure top quality seafood guaranteed to keep 7 days in the store. They must also contribute to training, so that the retailer will be able to maintain high quality of the products. The retailer's 50% requires that he follow Foley's recommendations, for example that he use Foley display material (wrapping, etc., in yellow and green colours). Furthermore, the retailer must contribute to the management of the programme, put on demonstrations to educate customers how to prepare fish (a minimum of twice per month), sell Foley's fish products exclusively, as well as properly mark products using Foley's price stickers. Earlier, Foley's products were sold unmarked through the retail business. This was because the producer did not want to put his name on products as long as he was not sure that the products were properly handled in the stores. Some retailers demanded the right to sell Foley's products as brand products and

wanted to differentiate these products from other fish products. However, the guarantee of satisfactory treatment is a prerequisite to be allowed to distribute Foley's products as brand products (Barnett, 1988).

Another example of a merchandising agreement between producer and retailer is the campaign some catfish farmers in the Mississippi Delta have entered into in cooperation with the supermarket chain Winn-Dixie Stores (test-marketing). The fish farming industry is vertically integrated and can thereby ensure strict quality control from the farm through the production process. The quality of the catfish products is therefore, by and large, uniform, and the fish-farmers differentiate each other on the basis of service. The producer Delta Pride hands out free spice packages to customers buying a minimum of one pound of cultivated catfish, buttons to the staff in the supermarkets ("Ask me about Delta Pride's FREE catfish seasoning packets") and contributes to display racks and equipment for the seafood counter, etc.. The retailers of Winn-Dixie test market the products in their supermarkets. If the promotion produces increased sales of catfish, Delta Pride will offer the same to other retailers. The programme is an advantage to the retailers, since the producers pay for all promotional

50.

material. The producer, for his part, maintains that the programme provides important information about the market for cultivated catfish (Barnett, op.cit.).

Another reason for moving away from pull marketing and towards push marketing has been the growth of **cable television, VCR's** and **independent television stations.** This growth has resulted in the mass marketing usually carried on national television networks now being fragmented. During the 70's, programmes on the national television stations were seen in about 90% of homes at prime time. By 1985-86 the percentage had dropped to 76% and the national channels have a steadily decreasing viewing public due to competition from independent television stations. The declining number of viewers has led to sharp increases in media costs and advertisers no longer consider television commercials the most effective marketing tool (Johnson, 1988).

In 1987 U.S. companies spent about US$ 100 billion on various **promotional measures.** Two-thirds of this was used for push marketing (trade promotion, incentives to wholesalers and retailers to encourage them to stock and promote the sale of the manufacturer's products (Johnson, op.cit.)). In the retail business, demonstrations on how to prepare seafood,

recipe cards and distribution of taste samples were much used methods of promotion in the past year. A U.S. study found that 88% of supermarkets used recipe cards in their marketing of seafood, 77% used taste sampling and 69% demonstrated preparation of seafood in the stores. Some retailers (23%) maintained that demonstrations were the most effective method of promotion and some said they use demonstrations regularly; at least when introducing new products (Hellevig, 1988).

6.2.2. Expanded customer services

Marketing of convenience as a total concept will be manifested in innovative shopping environments. Kroger's, for instance, base themselves on combination stores and market these as stores where customers can do all their shopping in one place.

The trend is towards enabling consumers to do all their shopping by visiting one store only, since the supermarkets are slowly but surely carrying more items than foodstuff, such as medicines/drugstore items, flowers, video rental, and so on (in other words a development towards new large store formats). Other supermarket chains base themselves on ethnic diversity to satisfy various minority groups. Safeway

Stores in California has developed more than 12 different store formats to meet the specific demands of ethnic groups in the trading areas (Messenger, 1987).

The development of 'fast-food' outlets is also a response to consumer demands for convenience and the desire to save time. 'Fast-food' outlets are normally operated as franchises and the most popular products sold as 'fast-food' are hamburgers, hot-dogs, chicken and complete red meat meals (Mason and Mayer, 1987). Seafood, pizza, salads, sandwiches and cakes are also popular 'fast-food' products in the U.S.A..

6.3. Structural changes in the retail business.

6.3.1. New technology.

What was regarded as a rapid technological development in the past appears headed for even faster acceleration in the future. These changes will influence a company's strategy and marketing plans in the retail trade. The challenges to management in the retail business will therefore be great and it will be important to be alert to new technological breakthroughs and include these in the company's plans and strategy.

Videotex refer to systems for information gathering in homes, or electronic retailing. Customers may place their orders for goods using a home computer. The orders are recorded by a central computer. There are divided opinions on the future of videotex. Some maintain that 10% of all U.S. homes will have the capability to order products by videotex by the year 1990 (N.N., 1986). Others are, however, more conservative in their attitude to videotex, and maintain that it will be a long time before retail products can be sold effectively by way of a computer screen. The problem with videotex systems is that there are different formats of video cassettes and players.

Electronic methods of payment is another example of new technology in the U.S. retail trade. This service automatically updates the balance of a customer's account after withdrawal and payment. The service also includes arrangements for loans and the amount is directly transferred to the customer's account without a waiting period. This is an advantage compared to cheques and credit cards, where the flow of money takes a minimum of two days for the same transaction (Mason and Mayer, 1987).

Shopping by way of cable television permits the retailer to transmit kitchenware displays, fashion shows and how-to

programmes to demonstrate and market his own products. The customer phones a code number for the desired product, switches to the proper channel on television and waits for the information to appear on the screen as to when the product in question will be shown. He then phones in the order. This service is available 24 hours a day.

The introduction of **scanners** (or optical readers) in the U.S. retail business represents an important new break-through in this sector. The scanner contains a light source which illuminates and automatically reads each marked product as it is passed over the store's check-out counter. Foodstuff manufacturers mark the products with a so-called **universal product code** (UPC), and nowadays about 90% of all groceries are marked with UPC. This is done during packaging so that the products are already coded when they arrive at the supermarket. Products marked with the characteristic bar-code will, when passed over a laser scanner, give management detailed information far faster than was possible before this method was developed. The information includes, among other things, product brand, size, price paid and how often the product is sold in the store. The use of scanners also reduces the time it takes to ring in the customer's purchases.

Direct product profitability (DPP) is another computer-based system which has contributed to changes in the way supermarkets do business. DPP is a system which calculates a product's relative profit by adding all expenses which can be attributed to the product, such as transportation, storage and store expenses and product discounts, and then subtracts these expenses from the product's gross margin (Messenger, 1987). The weakness of DPP is that the system does not record anything about the demand for the product. A product does not contribute to profitable operations if consumers are not buying it. A product which has a low DPP margin and is in high demand is more likely to survive than a product having a high DPP margin but which is in low demand.

Thanks to **scanners** and **computer systems** (UPC,DPP) retailers can routinely and quickly obtain detailed product information; which products sell well, what is in stock of a particular product and related products, and so on. Scanners and product codes also provide unique opportunities for consumer research and it is, for instance, possible to determine whether there are differences in various regions with regard to consumer shopping behaviour and demand for a given product.

By using scanners and product codes, the retailer can see what is moving and increase efforts to market a product (or give the product better shelf space, or special treatment) at an early point in time. The retailer has become a more respected decision-maker with regard to determining the value of a product, which has contributed to increasing his power and influence in his relationship with producers/distributors.

52.

6.3.2. Mergers and acquisitions in the food industry.

Just as important as changes at the retail level is the reaction to these changes at the producer level. After many years of having the power to lay down the rules of the game and being tie-in distributors in the food industry, the producers now develop products and market strategies influenced directly from the retail level.

Recent years have seen a consolidation in the foodstuff industry at the producer level through mergers and acquisitions at the retail level (Aschenbaum and Mitchell, 1987). Examples of mergers are R.J. Reynolds Industries, Inc. which acquired Nabisco and Philip Morris which bought out General Foods. The R.J. Reynolds-Nabisco merger resulted in the company acquiring a significant and profitable

product brand, represented to a large extent in the supermarkets. The strategy of Philip Morris when acquiring General Foods corresponded to the strategy of R.J. Reynolds-Nabisco. Mergers at the producer level of the food industry in the U.S.A. are more than the result of a trend. Some even go as far as to maintain that it is more a matter of survival when companies merge (Messenger, 1987).

On the other hand, tendencies towards mergers at the retail level in the distribution chain have been noted, as well as between players on different levels in the distribution chain. Consolidation of large retailers and wholesalers has increased the retailers' negotiating strength/influence over the manufacturers (Johnson, 1988). Examples of mergers and acquisitions at the retail level are:

* **The Great Atlantic & Pacific Tea Company, Inc.'s** (A&P) purchase of the supermarket chain Shopwell, Inc. in New York. A&P, which has been active in the retail business for a long time, owns more than 1,000 outlets in the U.S.A., and a few in Canada.

* **The Kroger Company's** purchase of 11 stores from M&M Super Markets, Inc., of the store chain Turkey Hill Minit Market Group (170 outlets) and five department

stores from Price Savers Wholesale, Inc.. The Kroger Company is the country's leading company in the retail trade.

Associated Grocers, Inc. of Seattle is an example of a retailer-owned company, and the company ensures product delivery to almost 400 retail warehouses in the States of Washington, Oregon, Alaska and Hawaii. The company buys products in large lots and delivers them to the warehouses of retailers who are co-owners of the company. Collaborating companies of the Associated Grocers type exist today in the distribution sector in many States of the U.S.A. (Associated Grocers of Colorado, Inc.; Certified Grocers of Illinois; Certified Grocers of California, Ltd.; Richfood, Inc., and others).

Some of the retail chains have reduced their capacity in recent years. Safeway Stores, Inc. with its main office in California, had, in the middle of the 80's, more than 2,300 outlets and was the country's largest supermarket chain when measured in sales. Safeway's stores are mainly located in the U.S.A, but the chain also has supermarkets in Great Britain, Australia, West Germany and Canada. A considerable portion of Safeway's interests abroad have been sold and the

chain is also reduced on the U.S. market. The total number of outlets is about 1,700 at present and the chain is still one of the giants in American retailing. In 1986 Safeway Stores was bought by Kohlberg, Kravis, Roberts & Co. in New York for US$ 4.3 billion (Weinstein, 1987).

6.3.3. Foreign acquisitions and influence.

During the 80's, foreign purchases of U.S. retail business remained on a relatively low and stable level. This is, to a great extent, due to great resistance to investment in the U.S.A., caused by the high dollar during most of the 80's (Weinstein, 1988). Lately, however, involvement and investment in U.S. retail businesses by foreign companies have been on the up-swing, and an increase in foreign buy-outs is expected in the near future. The reason for this is said to be restrictions on expansion in the investors' home countries due to public regulations or because of too low potential on the home market (Weinstein, op.cit.).

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The U.S.A. is regarded as one of the countries most open to foreign investment, and investment has also become more attractive due to the downward trend in the dollar towards the end of the 80's. A low dollar and lower acquisition prices for foreign investors as a result of lowered stock

values after the stock market crash of October 1987 also contributes to increased interest in establishing in the U.S. retail trade.

Countries most active in the acquisition of U.S. companies in the retail trade are: Great Britain, West Germany, France, Belgium, Canada and the Netherlands. The latest countries to buy into the retail trade are: Australia (Victory Markets) and Japan (interests in supermarkets in Hawaii) (Weinstein, op.cit.). Examples of companies in the retail trade having been bought by foreign investors are shown in Table 6.1. (See next page).

In most cases, the foreign owners permit the U.S. companies which they have acquired to operate with little or no interference. Nevertheless, such acquisitions result in an increased degree of internationalization of the trade in food products.

The consequence of mergers and acquisitions in the retail trade is also that producers and food distributors wanting to sell their products to retailers will, to a greater degree than before, be faced with industrial giants when they have to negotiate a deal. This results in increased negotiating strength on the purchaser's side, and greater

FOREIGN COMPANIES	HOME COUNTRY	BOUGHT IN THE U.S.A.:
The Tengelmann Group	West Germany	A&P*
Ahold	The Netherlands	Bi-Lo, Giant Food Stores, 80% of First National
Delhaize	Belgium	Food Lion, interests in Food Giant
J. Sainsbury	Great Britain	Shaw's Supermarkets
Carefour	France	Several hypermarkets in the U.S.A.
Euromarche	France	Hyper Shoppes (90%)
Loblaws	Canada	Peter J. Schmitt, National Tea.

Table 6.1: Examples of foreign purchases in the U.S. retail business.
(*A&P = The Great Atlantic & Pacific Tea Company, Inc.)
Source: Weinstein, 1988).

demands on producers and distributors. A probable result of the concentration will be that the demand for participation in marketing by producers, as well as specific agreements favouring the retailer, will be initiated by retailers.

7. Conclusion.

7.1. Retail sales.

Structural features and innovations on the operational side in the retail trade appear to be gaining in significance for the profit potential in this sector. The key to success lies in the retailer managing to keep up with developments and having the financial resources to make the necessary investments on his own. According to Mason and Mayer (1987) the following are among the most important strategical factors in the development of the U.S. retail trade:

* **Large volume of sales** which can be achieved through self service, many check-outs, low costs, a strong emphasis on price and a large selection of goods.

* **Positioning of store**, for example, by targeting offerings to small segments of the market.

* **Expansion into smaller markets** appears to become an important growth factor because now, for the first time in many decades, growth is greater in areas outside the large cities than in the cities themselves.

* **Strengthening of special regional markets** to take advantage of a good reputation in certain markets.

* **Product specialization** - specializing within one or a few product fields, with emphasis on carrying a particularly good selection of these products.

* **Sales on commission basis.** This factor has, in many cases, induced personnel to increase their efforts as they saw the purpose of working to increase sales in the store.

The sale of seafood products through the retail trade is increasing sharply (see section 3.2). The reason for this increase is a steadily growing acceptance of fish and fish products by U.S. consumers - seafood products are associated with health, proper diet, healthy lifestyle, as well as ethnic and experimental food preparation. A higher disposable income, population growth in cities which have good access to fish and fish products and shifts in lifestyles (more working women and more singles, etc, resulting in increased consumption of prepared meals) also contribute to growth in the consumption of seafood.

The retail sale of frozen fish products is dominated by a few brand name producers, and the largest of these are General Mills ("Gorton´s" - 20% market share in 1986), Campbell Soup ("Mrs. Paul´s -23% market share) and Pillsbury

("Van De Kamp's" - 15% market share). These have total sales of frozen seafood products slightly below US$ 1 billion (International Resource Development, Inc, 1986; N.N., 1987 b).

The sale of fresh fish constitutes about 57%, and the sale of frozen fish products constitutes about 30%, of seafood sales through supermarkets in the U.S.A. (Pollack and Hellevig, 1987). Frozen prepared meals from fish have been characterized by higher quality in recent years and the input of expensive, frozen products and prepared meals is larger than in previous years.

The U.S. food industry carries on active product development and marketing of a continuous flow of new prepared meals of fish, and the retail business follows up with more and more sales space for fish products (many state, however, that there is considerable excess capacity in sales space in the retail sector). Competition for space in supermarket freezer cases is, however, strong, which results in the introduction of new products in the retail business being resource intensive. Suppliers of frozen seafood products must have at their disposal large financial resources and be competent in order to gain entry into the retail trade. However, the retail market is a very interesting market segment since, at present, it has more stable and higher margins than other

consumer segments. Many feel that future growth will lie in this distribution channel, which, as of today, handles only about one-third of total sales of fish products in the U.S.A.

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7.2. Trends.

Changes in important market conditions such as demography, social conditions, lifestyle/value system, attitudes, preferences and behaviour have implications for retailers. A more comfortable/convenient lifestyle involves a wish for a more relaxed style with regard to clothing, home, surroundings, and so on. In addition to the traditional assortment in the stores, the need for a large selection of lifestyle-oriented products then becomes evident. Consumers expect immediate satisfaction of wants and needs which, again, places heavy demands on retailers. The demand for quick service in the stores, simpler methods of payment and easy access to credit have increased in step with customer desires to save time. The retail level has responded to the new demands with changed strategies in product mix/position and marketing mix as well as structural adaptation.

7.3. Increased power in the retail sector.

The introduction of a large number of new products each

year, competition for shelf space in the supermarkets and the introduction of scanners/product codes and electronic systems are examples of factors which have made retailers more capable of negotiating when facing producers/distributors. Some maintain that the fact that retailers now have more influence in the food industry in the U.S.A. has had positive effects. Foodstuff producers try to adapt to these changes by improving product development and accord the customers on the retail level more respect and importance when developing new products. These factors result in consumers, to a greater degree than previously, being presented with products which suit the present lifestyle, and products which are better than was previously the case (Messenger, 1987). While producers must compete for shelf space in the supermarkets and invest significant amounts of resources in product development and marketing of their products, the consumer will find more and better products to choose from in the future, provided present developmental trends continue.

Mergers and acquisitions in the U.S. foodstuff industry result in Norwegian exporters of seafood being faced, to a greater degree than before, with large negotiating partners when selling their products on the U.S. retail market.

Acquisitions in the retail trade by, among others, foreign foodstuff companies, also lead to an increased degree of internationalization in the trade in food products. Both these factors result in increased negotiating power on the part of the purchaser and, thereby, increased demands on producers/distributors. A probable result of concentration within the U.S. retail trade will be that demands for participation in promotion by producers as well as for specific agreements favouring retail companies will be initiated by retailers.

The tendency appears to be towards increased power for the retailers in the U.S. trade in food products. This will have serious consequences for producers/distributors/suppliers wishing to sell their goods through the retail business. It requires considerable input and large resources for marketing, and suppliers must be willing to provide good service in the form of reliable delivery of quality products as well as give concessions to retailers if they want to place their products on the shelves at all.

7.4. Future plans.

In the future study of the U.S. retail trade we will focus on what demands and conditions this industry places on

suppliers of seafood products. It is important to chart the demands which the retail companies are in fact placing on their suppliers, in order to adapt to these in the future. The charting will be carried out as a preliminary study, where the purchasing managers in the larger supermarket chains and independent retail companies (possibly the potential buyers of Norwegian seafood products) will be interviewed. We will also chart which products/product variants are of most interest to Norwegian exporters wishing to penetrate the U.S. retail market.

Information obtained through the interview study will be relevant to the evaluation and formulation of strategies for Norwegian entry into, profiling and developing of, the retail segment in the U.S. foodstuff industry market. Data for this section of the project will be collected during the fall and winter of 1988/89.

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